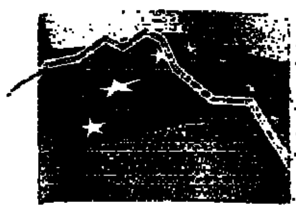
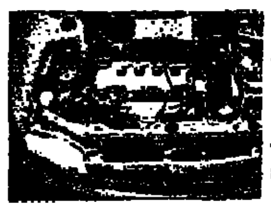


Caracas cracks up
Venezuela's economy falls from grace
Page 15

Modernising Lloyd's
Electronics takes over
Page 11

Polls in Ukraine
Kuchma takes over again
Page 2



Today's surveys
France
Automotive Components
Separate sections

FINANCIAL TIMES

Europe's Business Newspaper — TUESDAY JULY 12 1994 — D8523A

N Korea to reopen talks with US on nuclear plans

North Korea yesterday indicated it would resume negotiations with the US and South Korea to ease tensions over its nuclear programme in spite of postponing the meetings after the death of its president Kim Il-sung. In a message to the US, Pyongyang suggested talks in Geneva would be reopened as early as next week, after Mr Kim's funeral on Sunday. Page 16; Japanese reaction, Page 7

UK to put up benefits barrier: The UK government announced it was stopping the payment of three categories of social security benefit to citizens of the European Economic Area on temporary visits to the UK to prevent "benefits tourism". Page 9

Peres breaks logjam with Jordan visit

Foreign minister Shimon Peres (left) will next week become the first senior Israeli to make an official visit to Jordan amid signs of a thaw in relations. Meanwhile in the West Bank town of Nablus Israeli troops firing rockets killed two Moslem militants. Page 7

IRA kills Protestant militant: Security forces in Northern Ireland were on full alert today for the traditional Twelfth of July Parades by thousands of Protestants. This followed the IRA murder in Lisburn of Ray Smallwood, aged 44, a leading hard-line Protestant spokesman for the Ulster Democratic party which has links with paramilitary organisations.

UN mission ordered out: Haiti's army-backed government told a UN-led human rights mission to leave the country because it threatened national security. Page 4

Accord in Aids dispute: French and US health researchers claim to have settled the long-standing medical feud over who should reap the commercial and scientific rewards for discovering the Aids virus. Page 16

Crédit Lyonnais probe: An official French parliamentary inquiry due out today into the problems of banking group Crédit Lyonnais is expected to be critical of the regulatory authorities and the bank's management team. Page 17; Lex, Page 16

Oil workers shot dead: Gunmen disguised as Algerian police shot four Russians and a Romanian working with Algeria's state oil company Sonatrach after stopping a bus in an Algiers suburb. French suspicious of US line on Algeria, Page 7

France Télécom, state-owned telecommunications operator, reported a sharp jump in net profits for last year, from FFr3.3bn ($590m) in 1992 to FFr4.8bn. Page 17

Kabul fighting: Heavy fighting erupted in Kabul in which at least eight people were killed, clouding an Islamic peace envoy's trip to the war-shattered Afghan capital.

Berlusconi government split: Coalition partners of Italy's rightwing government are deeply divided about appointing a new management for the state broadcasting organisation, the RAI. The dispute centres on moves by the three main partners to ensure they all have their nominees on the board. Page 2

Siemens, German electronics and electrical group, is to cut a further 7,000 jobs this year. Page 17

Eurofrigate deal signed: Britain, France and Italy agreed to develop a Eurofrigate for their navies. They plan to build 22 at a cost of £6bn-£8bn ($9bn-$12bn).

Payout over mercury poisoning: Chisso, Japanese chemicals maker, was ordered by a regional court to pay a total of Y276m (£1.8m) in damages to 42 claimants poisoned by mercury dumped into the sea in southern Japan during the 1950s. Page 7

US struggling to be competitive: The US has not solved the structural problems that have impaired its competitiveness, despite its recent economic turnround, says a report by the Council on Competitiveness. Page 5

Bus crashes into Yangtze: At least 29 people were reported drowned when their bus slid off a ferry and fell into China's Yangtze River.

■ STOCK MARKET INDICES

FT-SE 100:	2983.8	(+21.4)
Yield	4.15	
FT-SE Eurotrack 100	1326.78	(+10.78)
FT-SE-A All-Share	1491.78	(+0.6%)
Nikkei	20,473.09	(-53.42)
New York: lunchtime		
Dow Jones Ind Ave	3686.80	(-22.34)
S&P Composite	445.93	(-3.62)

■ US LUNCHTIME RATES

Federal Funds:	4¼%
3-mo Treas Bills: Yld	4.568%
Long Bond	85½
Yield	7.736%

■ LONDON MONEY

3-mo Interbank	5¼%	(same)
Life long gilt future:	Sep 102	(Sep 101)

■ NORTH SEA OIL (Argus)

Brent 15-day	$17.095	(17.35)

■ GOLD

New York Comex	$388.1	(385.1)
London	$386	(383.4)

■ STERLING

New York lunchtime:		
$	1.5755	
London:		
$	1.5638	(1.54)
DM	2.4061	(2.4241)
FFr	8.2758	(8.3258)
SFr	2.0298	(2.0428)
Y	152.255	(151.801)
£ Index	79	(78.1)

■ DOLLAR

New York lunchtime:		
DM	1.5215	
FFr	5.2275	
SFr	1.284	
Y	97.1	
London:		
DM	1.54	(1.5741)
FFr	5.2923	(5.4065)
SFr	1.298	(1.3265)
Y	97.365	(98.575)
$ Index	62.3	(63.2)
Tokyo close Y 98.55		

Austria	Sch32	Greece	Dr350	Lux	LFr65	Qatar	QR13.00
Bahrain	Din1.250	Hong Kong	HK$16	Malta	Lm0.60	S.Arabia	SR11
Belgium	BFr65	Hungary	Ft185	Morocco	MDh15	Singapore	S$4.30
Bulgaria	Lw25.00	Iceland	IKr215	Neth	Fl 4.00	South Africa	R12.00
Cyprus	C£1.10	India	Rs50	Nigeria	Naira50	Spain	Pta225
Czech Rp	CZK50	Israel	Shk8.90	Norway	NKr17.00	Sweden	SKr16
Denmark	DKr16	Italy	L3000	Oman	OR1.50	Switz	SFr3.30
Egypt	E£5.00	Japan	Y500	Pakistan	Rs40	Syria	S£50.00
Finland	FM14	Jordan	JD1.50	Philippines	Pso50	Tunisia	Din1.500
France	FFr8.50	Kuwait	Fils600	Poland	Zl 32,000	Turkey	L30000
Germany	DM3.50	Lebanon	US$1.50	Portugal	Esc225	UAE	Dh12.00

Clinton fails to dispel fears that US favours benign neglect of currency

Dollar plumbs new lows as traders react to G7 summit

By Philip Gawith in London

Foreign exchange traders yesterday delivered their judgment upon the Group of Seven's unwillingness to intervene in currency markets by driving the US dollar to record lows.

The market ignored efforts by President Bill Clinton to dispel the impression that he favoured a policy of benign neglect towards the dollar.

Mr Clinton told reporters after meeting German chancellor Helmut Kohl in Bonn that the US would not use the dollar as an instrument of trade policy.

The US currency continued to slide after the the G7 leading industrial nations meeting in Naples at the weekend decided to leave the fate of the dollar to the markets.

Sentiment was further soured by remarks made by Mr Clinton in Naples which traders took to mean that the US administration would sanction a further fall in the dollar.

Traders had hoped that the summit might agree a plan for concerted interest rate moves and market intervention to support the dollar.

The dollar closed in London at DM1.54 against the D-Mark down from DM1.5741 on Friday. During US trading it fell below DM1.52, the lowest level since October 1992. Against the yen it touched a new post-war low of Y97.365, from its London close of Y98.575 on Friday.

Mr Theo Waigel, the German finance minister speaking at a meeting of EU finance ministers defended the approach the G7 adopted in Naples. He said "We did enough. Now we will see what the markets will do."

The dollar's weakness against the yen had been temporarily arrested by worries about repercussions in Asia from the death of Mr Kim Il-sung, the North Korean leader. However the G7's widely predicted decision not to refer to currencies in its communique was taken by traders as a further reason to sell the US currency.

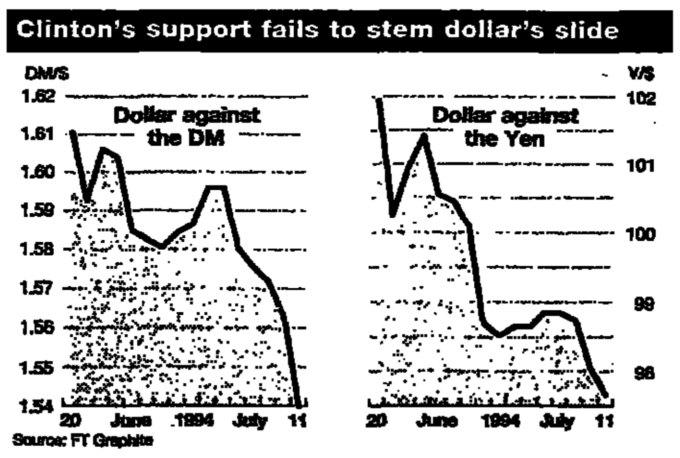
Mr Lloyd Bentsen, the US treasury secretary, and his economic team, have recently made strenuous efforts to combat the market's view that the US is prepared to allow the dollar to drift. However this view gained renewed credence from Mr Clinton's comments at the weekend which gave the impression that he would rather sanction a weaker dollar than higher interest rates.

Analysts stressed, however, that the fairly relaxed attitude of the authorities was confirmation that the dollar was in gradual decline, rather than facing a crisis. Its traded weighted value also remains more than 10 per cent above the lows it reached in 1992. Mr Steve Hannah, head of research at the Industrial Bank of Japan in London, commented: "The G7 partners have admitted

Continued on Page 16

Special relationship: Bill Clinton and Helmut Kohl during a press conference yesterday at the Bonn Chancellery AP

Clinton's support fails to stem dollar's slide



Source: FT Graphite

Clinton and Kohl pledge common focus

By George Graham and Quentin Peel in Bonn

President Bill Clinton and Chancellor Helmut Kohl yesterday pledged themselves to close co-ordination of their efforts to bring the countries of central and eastern Europe into a common security system with the west, and to provide better trade access to western markets.

On the first day of a two-day official visit, Mr Clinton underlined the special relationship which has developed between the US and Germany, and which has become stronger because of their common focus on the stabilisation of eastern Europe.

"There's a way in which the US and Germany have a more immediate and tangible concern with these issues, even than our other friends in Europe," he said at a joint press conference after his first round of talks with Mr Kohl. He described their "common partnership" as unique, because "so many of our challenges are just to Germany's east".

Mr Clinton is expected to make the integration of eastern and western Europe the centrepiece of his speech at the Brandenburg Gate in Berlin today. It has been billed by senior US officials as an important statement of US policy towards Europe.

In Berlin, Mr Clinton and Mr Kohl will also meet Mr Jacques Delors, president of the European Commission, when a US-European Union working group on co-ordination of policy towards eastern Europe is expected to be set up. The aim is to strengthen direct lines of communication between the US and the EU, which officials on both sides admit have become a relatively weak link in transatlantic relations.

In his welcome to the US president, Mr Kohl recalled with emotion that "American soldiers brought freedom to Germany" and then "defended freedom and peace and security for us here" for 40 years. He underscored the importance of maintaining a US military presence as a pillar of Germany's future security, reminding Mr Clinton of his promise to keep 100,000 troops in Europe.

He also paid particular tribute to the US for its support for the German unification process in 1989 and 1990. "This would not have been brought about without the assistance and help of our American friends," he said.

Mr Clinton stressed that military and security links with eastern Europe, such as Nato's Partnership for Peace programme, should be complemented by better trade access for the emerging democracies. "We recognise that trade, as much as troops, will increasingly define the ties that bind nations in the 21st century."

Asked whether his "truly unique" relationship with Germany had displaced his country's "special relationship" with the UK, Mr Clinton said the US-UK relationship was "unique in ways that nothing can ever replace because we grew out of them".

As for Germany, he said: "What we have shared since World War Two.... is astonishing.... The future we dream of cannot be achieved without the strong, unified efforts of Germany and the US."

Mr Clinton said that his special relationship was not only with Germany in general but with Mr Kohl and at meetings which involved them both his response was often: "I agree with Helmut."

Coffee prices soar as second frost hits Brazil

By Alison Maitland in London

Coffee futures prices yesterday leapt by 30 per cent to their highest level in more than eight years, after a second severe frost in Brazil in as many weeks raised fears of a serious shortage of beans in the next couple of years.

The surge in futures prices, which have climbed by 220 per cent this year, increases the likelihood of further rises in retail coffee prices of at least 15 per cent this year, according to manufacturers.

Sainsbury, the leading UK supermarket group, yesterday announced an increase of 10p to 99p in the price of its own label instant coffee. A spokesman for Nestlé, which raised the price of Nescafé by 12½ per cent in January, said the latest rises in world bean prices would "work their way through to the supermarkets".

The weekend frost prompted Brazil, which accounts for a quarter of world output, to suspend exports until it has assessed the damage. According to initial estimates, it could lose up to half next year's crop as a result of the two frosts, with temperatures falling to about minus 3 degrees celsius with ice in some places.

The freeze is not thought to have done much damage to this year's crop which is being harvested. However, the coffee trees hit by the freeze as a result will produce fewer beans next year. Both frosts affected southern parts of Minas Gerais, the most important coffee-producing state, as well as other regions.

Accu-Weather, an independent forecasting organisation, said the frost two weeks ago damaged 30 to 40 per cent of next year's crop, which had been originally estimated at between 25m and 30m bags. Saturday's frost hit a further 10 to 15 per cent of the crop.

Ms Judith Ganes, soft commodities analyst with Merrill Lynch in New York, said coffee futures prices could regain the all-time highs of 1977, which followed the devastating Brazilian frost of 1975. Prices then reached the equivalent of $7,000 a tonne, compared with yesterday's

Continued on Page 16
Commodities, Page 24

Eli Lilly pay $4bn for drug distributor

By Richard Waters in New York and Paul Abrahams in London

Eli Lilly, the US drugs company, is to pay $4bn for PCS, a drugs distributor, in the third big acquisition of its kind in the US in less than a year.

A subsidiary of McKesson, a San Francisco-based company, PCS claims to sell drugs to 50m Americans under various healthcare programmes, with sales last year of $6.4bn, making it the biggest company of its type.

The planned deal is the latest sign of the rush by drugs companies to secure distribution for their products in the US, the world's biggest pharmaceuticals market. Faced with pressure to hold down prices, manufacturers have sought to build market share by buying distribution companies outright or gaining preferential treatment for their products.

If completed, the deal will leave three of the biggest US distributors under the control of pharmaceutical manufacturers. Last year, Merck paid $6.7bn for Medco Containment Services, then SmithKline Beecham agreed to acquire Diversified Pharmaceutical Services for $2.3bn.

McKesson has discussed a sale of PCS to other manufacturers recently though it did not hold a formal auction, PCS said. After other links between distributors and manufacturers, it has been the only big retail distributor left on the market.

The structure of the deal still leaves McKesson open to higher offers for PCS. Lilly has launched a tender offer for all of McKesson's shares. It plans to spin off all of McKesson's businesses, other than PCS, into a new company, shares in which will be distributed to existing McKesson shareholders. "It does open the door to other offers," PCS said yesterday.

News of the deal drove McKesson's shares up by a third yesterday morning, to $98¼. By contrast, Eli Lilly's shares slid 12 per cent to $50¼ on fears that it was paying too much.

Shares in Glaxo, which had been rumoured to be interested in buying PCS, fell 8p to 563p on the news. The main reason, said analysts, was that a large proportion of US patients would now be more difficult for Glaxo to reach, particularly with its top-selling anti-ulcer drug Zantac.

Merck, SmithKline Beecham and now Eli Lilly would each push their respective anti-ulcer products through their newly acquired prescription management benefit companies, Mr Duncan Moore, pharmaceuticals analyst at Morgan Stanley said.

Lex, Page 16
Test for new formula, Page 19

Ukraine poll upset may improve ties with Russia

By Jill Barshay and Chrystia Freeland in Kiev

Mr Leonid Kuchma, a former Soviet missile factory boss, won Ukraine's first presidential election since independence in 1991, defeating incumbent Leonid Kravchuk in an upset that could improve relations between Kiev and its former Soviet neighbours.

His victory raises questions about the country's pledges to the west on nuclear disarmament, and the fate of a troubled reform programme for its ailing economy.

The 55-year-old Mr Kuchma, who campaigned to strengthen ties with Russia in order to revive Ukraine's economy, won 52 per cent of the vote compared with Mr Kravchuk's 45 per cent, a difference of about two million votes, according to the Central Election Commission's preliminary returns.

The key to Mr Kuchma's victory was the unexpectedly high turnout of about 65 per cent in Ukraine's densely populated eastern regions, where residents are largely Russian speakers

Continued on Page 16
Power shifts eastward, Page 2
Editorial Comment, Page 15

CONTENTS

 LONDON · PARIS · FRANKFURT · NEW YORK · TOKYO

OECD's top job may go to Canadian

By David Buchan in Paris

Mr Donald Johnston, a former Canadian minister, has clearly emerged as the leading candidate to head the Organisation for Economic Co-operation and Development, according to informal soundings among its 25 member governments.

These show Lord Lawson of the UK trailing in third place behind Mr Jean-Claude Paye, the French incumbent.

But it is still unclear whether or when this support for Mr Johnston will crystallise into the consensus by which the Paris-based organisation traditionally conducts its business. He appears to have some backing from the divided ranks of the 19 European members as well as solid support from the six non-Europeans.

"The decision depends entirely on the Europeans at this stage," said a non-European OECD envoy yesterday. "They have got to make their views known." But the three European candidates – Mr Paye, Lord Lawson and Mr Lorenz Schomerus, a German – are all from European Union members that have yet to take their more important decision on a new president for the European Commission. "Until that decision, it is impossible for us [EU members] to get together on a new OECD head," said a European diplomat yesterday.

Ambassador Eric Röthlesberger of Switzerland, who has been given the task of sounding out countries on their preferences, said yesterday the OECD's July 28-29 council meeting, the last before the summer break, was not an essential deadline, because Mr Paye's term ended on September 30.

The 57-year-old Mr Johnston, who is now president of Canada's governing Liberal party, held several middle-ranking cabinet jobs dealing with finance, science and technology and development – all OECD issues – until his party lost power in 1984. He was then shadow finance minister until 1988, when he quit elected politics which he tried, but failed, to re-enter last year.

Mr Donald Johnston: gaining support among Europeans

Ambassador Anne-Marie Doyle of Canada claimed yesterday that Mr Johnston was gaining "strong support across all [geographical] regions" of the OECD membership. The Canadian's most open supporter has been the US, which has argued that the new secretary general should be a non-European to reflect the expansion of the OECD which took in Mexico this year and may admit South Korea next year.

Despite the anonymity of the soundings, Mr Johnston's supporters claim he now has a dozen governments behind him. Mr Paye is rumoured to have the clear support of half a dozen. Lord Lawson has apparently gained little support beyond that of the UK. Mr Schomerus was never considered a serious contender outside Bonn.

Of the four rivals for the OECD job, he has been the most active canvasser. After his passage through the OECD earlier this year, French and British diplomats, who are fielding their own candidates, described him as not very impressive.

Italian coalition split over new RAI board

By Robert Graham in Rome

The naming of a new management for Italy's state broadcasting organisation, the RAI, is proving a deeply divisive issue among the coalition partners in Italy's right-wing government. The populist Northern League has rejected a list of candidates; and the speakers of the chamber of deputies and the senate, the two institutional figures technically responsible for the nominations, have been seen at odds.

The RAI issue was top of the agenda for Mr Silvio Berlusconi, the prime minister, following his return from the Group of Seven summit in Naples. Even during the summit, Mr Berlusconi was called upon to mediate in the dispute over the appointments.

The dispute centres on moves by the three main partners in the government coalition – Mr Berlusconi's Forza Italia, the League and the neo-fascist MSI/National Alliance – to ensure they all have their own nominees represented on the board of what continues to be Italy's most influential media network. This is a classic example of the fights to carve up influence in a powerful state body which so discredited successive post-war governments and which Mr Berlusconi himself has sought to avoid.

Thus his own authority is at stake. He does not wish to be seen making too many concessions to the individual interests of his partners. This explains his tough stance even at the Naples summit, refusing the call for a special meeting of his coalition parties.

The one-year-old RAI board was forced to step down on June 30 following the government's threat to refuse to accept its financial reorganisation plan and emergency funding. The board, though installed as technicians, were considered too close to the previous governing parties. But the government had previously been critical of the RAI's bias against Mr Berlusconi.

Attempts to find a quick replacement have been undermined by the League. Mr Umberto Bossi, its leader, yesterday repeated his concerns about the way the nominations were being handled. "The danger is that once the media are controlled, this will allow the consolidation of a certain group's power within the government coalition," he said in the League's weekly newsletter.

This was a thinly veiled reference to Mr Berlusconi's existing ownership of the Fininvest media empire, which controls more than 80 per cent of Italy's commercial television. Ms Irene Pivetti, the speaker of the chamber of deputies, is a member of the League and was instrumental in blocking the first board list.

Mr Bossi yesterday also revealed in the same newsletter he would shortly be submitting to parliament an anti-trust law preventing monopolistic positions in the media.

Political upheavals in prospect after presidential elections in two CIS states

Power shifts eastward in Ukraine voting

By electing Mr Leonid Kuchma as president in Sunday's ballot, Ukrainians have set off a political earthquake in their seemingly stagnant state.

For the first time since the country became independent in 1991, it is Russified, industrialised eastern Ukraine, rather than the intensely nationalist west, which will set the political tone in the nation. Moreover, with the ousting of Mr Leonid Kravchuk, the elaborate and powerful patronage networks the president has established in Ukraine over the past three years are set to crumble. A new guard, from the east and from the once elite and now wilting defence sector, is about to take charge of the capital.

A balding man with an unpretentious, engaging personal manner, Ukraine's president-elect is an ambivalent figure. The election campaign did more to obscure than to clarify Mr Kuchma's platform, as he sought to simultaneously win the communist vote and woo market reformers, to appeal to the pro-Russian east while reassuring the rest of the nation that he would not be Moscow's pawn.

What is clear is that Mr Kuchma, known as the "chief" when he was prime minister, will bring in a style of government very different from that of Mr Kravchuk, a cunning strategist who has elevated vacillation into a political philosophy. As the erstwhile director of Yuzhmash, the former Soviet Union's largest missile factory, Mr Kuchma is a tough, decisive leader, impatient with politicking and accustomed to instant obedience.

Western diplomats predict that Mr Kuchma, whom Mr Kravchuk sought to portray as Moscow's yes-man during the campaign, will not in fact, inaugurate a radical change in Ukraine's relations with Russia, but will instead bring a more subtle shift in orientation.

His aides agree, and say that the new Ukraine will be wrought in the image of east rather than west. "Russian-speaking Ukrainians are absolutely loyal to the Ukrainian state," Mr Iuri Pestriakov, a Kuchma official said. "But they were reduced to second-class citizens by Kravchuk."

Before he can set about forging this new, slightly different, Ukraine, Mr Kuchma must first establish himself as the leader of this entire, and disparate nation, and assert his control over the nation's government. Swept into office on a pro-Russian platform, he must prove he can be the leader of all of Ukraine.

To do that, he will be compelled to balance on a tightrope pulled taut by nationalist aspirations in the west of the country and pro-Russian inclinations of the eastern Ukrainians who propelled him into office.

Mr Leonid Kuchma: tough and decisive AP

"Mr Kuchma's main challenge will be to persuade the nationalist west that he will not submit to Moscow's dictates," a western diplomat said.

Satisfying the east should be easier. Indeed, Mr Dmytro Tabachnyk, mastermind of the Kuchma campaign, yesterday declared triumphantly that with Mr Kuchma's victory the question of Crimean separatism had been put to rest "because the people of Crimea voted overwhelmingly for Ukraine's new president".

The second domestic challenge Mr Kuchma faces will be asserting his authority over the state administration which, during the past three years, Mr Kravchuk has carefully stacked with his own political supporters. Accusations from the Kuchma team that government officials in the electoral commissions and state media were biased in favour of the president have already embittered relations between Ukraine's new leader and the bureaucratic machine he has inherited.

Another source of acrimony is Mr Kuchma's relentless campaign against corruption. In a nation in which government pay-offs are a way of life, he is privately praised by Ukrainian law-enforcement officials as one of the country's cleanest politicians. As president, Mr Kuchma, whose efforts to dismiss and jail corrupt state officials when he was prime minister were thwarted by the president and parliament, might well make a very public example of some of the more questionable business dealings of the Kravchuk administration and the men behind them.

He will also need to develop a modus vivendi with Ukraine's parliament and cabinet ministers, a task complicated by the still unresolved constitutional debate in the country.

Although many communist voters appear to have backed Mr Kuchma, he will inevitably come into conflict with the dominant hard-line left-wing faction in parliament if he pursues the market reforms he has promised. Judging by his rhetoric on the campaign trail, Mr Kuchma will be disinclined to make the sort of compromises which Mr Kravchuk employed to preserve a moribund political stability in Ukraine.

Mr Kuchma's relations with Mr Vitalii Masol, the recently appointed prime minister and a long-time Kravchuk ally, could be even more tense. Mr Masol, who gamely says he has a deal to stay on as prime minister, has admitted privately that his personal relationship with the new president is distant. While campaigning, Mr Kuchma vowed to sack him.

Even as he sets his own house in order, Ukraine's new president cannot afford to neglect the world beyond his nation's borders. From the west, he has the enticing offer of $4bn of aid if Ukraine begins long-delayed economic reforms. To the east, Mr Kuchma hopes that his warm friendship with Russia's prime minister and his more conciliatory tone will ease strained relations between the two Slav neighbours.

But he would do well to realise that neither Moscow nor Washington is likely to favour a faltering Ukraine with economic hand-outs; like his ousted predecessor, voters are likely to judge Mr Kuchma by what he achieves at home.

Chrystia Freeland and Jill Barshay

Belarus sweeps in new broom

The victory in Belarus's first presidential election of Mr Alexander Lukashenko, an anti-corruption campaigner, threatens to aggravate the republic's economic woes if the new president sticks to his promise of fighting both corruption and market economics.

Official results published yesterday gave Mr Lukashenko 80 per cent of the vote in a run-off against Mr Vyacheslav Kebich, the conservative prime minister who had tried every trick in the book – including populist economic handouts and unabashed exploitation of the state-controlled media – to secure his own election.

But Mr Lukashenko, a poorly-educated former collective farm boss who more recently headed parliament's anti-corruption commission, owes his surprise victory to his well-delivered message of "finding simple solutions to complicated problems".

Victory was delivered to him on a plate by popular weariness with old-style Soviet-era leaders who failed to conduct any coherent market reforms in three years of independence. The failure to reform an economy dominated by obsolete industry has meant Belarus has suffered from industrial collapse, hyperinflation, shortages in the shops, and widespread corruption as the state has sought to maintain an increasingly ineffective grip on the economy.

Mr Lukashenko, 39, has promised to root out corruption by starting from the top. "This will end the problem at the lower level because people take their cue from the top," he has said. He has vowed to restore socialist-style controls over the economy and also frightened the country's fledgling private sector with his promise to confiscate "ill-gotten gains".

The main plank of Mr Kebich's programme to save the economy from "catastrophe" was his plan for a monetary union with Russia – in effect turning Belarus into a Russian province. In an attempt to boost Mr Kebich's election chances after his poor showing in the first round of voting, Mr Victor Chernomyrdin, Russia's prime minister, even travelled to Minsk to confirm Russia still endorsed the draft union he cooked up with Mr Kebich last winter.

During the election campaign, Mr Lukashenko, an unknown quantity in Moscow endorsed only by Mr Vladimir Zhirinovsky, the Russian ultra-nationalist, had also supported the proposed union with Russia. He even suggested that the alliance be extended to the political sphere.

On Sunday, however, he issued mixed signals on his plans for relations with Russia. "Let us stop playing up the Russian card," he said. "Russia has its own interests, Belarus has its own."

Mr Lukashenko's victory can only reinforce Moscow's growing doubts about the benefits of a union already criticised within Russia as economically unprofitable for it.

Mr Alexander Shokhin, the Russian deputy prime minister responsible for the economy, took a non-committal line on the results of elections in both Belarus and Ukraine while acknowledging the problems which have dogged the proposed monetary union with Minsk.

Leyla Boulton

LONDON STOCK EXCHANGE DEALINGS

THE INFORMATION shown on this page, which appears every Saturday, is supplied to the Financial Times by the London Stock Exchange.

Stocks shown are selected by the Stock Exchange from among those companies and securities whose prices do not appear in our daily London Share Service.

The Saturday selection changes frequently, according to the volume of trading in individual stocks registered by the Stock Exchange during the week ending on each Thursday. Thus if no dealing takes place in a stock, it will not be included in the following Saturday Dealings page.

THE FINANCIAL TIMES
Published by The Financial Times (Europe) GmbH, Nibelungenplatz 3, 60318 Frankfurt am Main, Germany. Telephone ++49 69 156 850, Fax ++49 69 5964481, Telex 416193. Represented in Frankfurt by J. Walter Brand, Wilhelm J. Brüssel, Colin A. Kennard as Geschäftsführer and in London by David C.M. Bell and Alan C. Miller. Printer: DVM Druck-Vertrieb und Marketing GmbH, Admiral-Rosendahl-Strasse 3a, 63263 Neu-Isenburg (owned by Hürriyet International). ISSN: ISSN 0174-7363. Responsible Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL, UK. Shareholders of the Financial Times (Europe) GmbH are: The Financial Times (Europe) Ltd, London and F.T. (Germany Advertising) Ltd, London. Shareholder of the above mentioned two companies is: The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL. The Company is incorporated under the laws of England and Wales. Chairman: D.C.M. Bell.

FRANCE
Publishing Director: D. Good, 168 Rue de Rivoli, F-75044 Paris Cedex 01. Telephone (01) 4297-0621, Fax (01) 4297-0629. Printer: S.A. Nord Eclair, 15/21 Rue de Caire, F-59100 Roubaix Cedex 1. Editor: Richard Lambert. ISSN: ISSN 1148-2753. Commission Paritaire No 67808D.

DENMARK
Financial Times (Scandinavia) Ltd, Vimmelskaftet 42A, DK-1161 Copenhagen K. Telephone 33 13 44 41, Fax 33 93 53 35.

NEWS: EUROPE

EUROPEAN NEWS DIGEST

Alitalia flights again disrupted

Alitalia, Italy's state-controlled airline, yesterday suffered its third major day of disruption in less than a week, as unions protested against imposition of a tough restructuring plan on the loss-making national carrier. Originally an all-out strike was called by the main unions covering flight personnel and ground staff. But Mr Publio Fiori, transport minister, on Sunday invoked special powers that oblige operation of minimum services. This meant Alitalia could operate 55 per cent of planned domestic flights, 65 per cent of short-haul international flights and 83 per cent of inter-continental flights.

On Sunday Alitalia took the unprecedented step of placing advertisements in the national press apologising to passengers under the headline: "Thousands of passengers cannot fly – why?" A letter was sent to employees in the name of Mr Renato Riverso and Mr Roberto Schisano, respectively chairman and chief executive, pointing out there was "no alternative to the restructuring and in no form can we give up this objective".

Negotiations on the restructuring, which envisages loss of up to 4,000 of the company's 18,000 jobs, were broken off last week by the unions in advance of their strike call. On Tuesday and Wednesday last week wildcat strikes were called by Sulta, a militant trade union, which was formed last year and was not included in the talks. Some talks are to resume tomorrow with the main unions, but at least two more stikes have been called later in the month. *Robert Graham, Rome*

Agreement signed on frigate

Defence ministers of France, Italy and Britain yesterday signed an agreement committing themselves to further development of the common next-generation frigate. Mr François Léotard, Mr Cesare Previti and Mr Malcolm Rifkind signed the memorandum of understanding in London. It governs design, development and production of the ship. A separate pact to begin work fleshing out the design in the next few months was also signed.

The frigate, Project Horizon, is primarily for air defence and will replace Type 42 destroyers in the Royal Navy while the French ships are intended as aircraft carrier escorts and the Italian for general duties. A total of 22 ships are planned, 12 for the UK, six for Italy and four for France, at a cost of £6bn-£8bn. Three "first of class" ships are expected in service in 2002. The prime contract is expected to be handled by a joint venture company comprising DCN International for France, Finmeccanica and Fincantieri of Italy and a group headed by GEC-Marconi for Britain. *Bernard Gray, London*

Islamic party held in check

Turkey's secular majority appears to have clawed back electoral ground from a resurgent Islamic party on Sunday in a re-run of recent local elections. The main opposition Motherland party (Anap) seized the Moslem stronghold of Fatih in Istanbul, ahead of the Islamic Refah party (RP). Although it increased its share of the vote to 35 per cent from 28 per cent in March, the RP was pipped by Anap, which almost doubled its vote to take 42 per cent. This was the first sign that supporters of Turkey's mainstream parties may be using tactical voting to keep the Moslems out of power. The re-run at Fatih and in three other areas follows allegations of irregularities in the nationwide local elections on March 27, when Mrs Tansu Çiller's True Path party won a narrow victory, on a law and order platform. *John Murray Brown, Istanbul*

IRA suspected in French case

French police suspect that the Irish Republican Army may have been the beneficiary of a corruption ring during the construction of the EuroDisneyland theme park at Marne La Vallée on the outskirts of Paris, according to "judicial sources" cited by Agence France-Presse, the French news agency. The report follows the conviction of Mr Joseph Mehager, 54, a site manager at EuroDisneyland on charges of involvement in a corruption ring that extorted £20,000 from Spearhead, a company bidding for a water supply system contract at the EuroDisneyland site. Mr Mehager was sentenced last week by the Paris appeal court to eight months in prison and to pay a FFr15,000 (£1,800) fine. AFP said that the French police had been unable to identify the beneficiary of the bribe, but said that the IRA was under suspicion. *Alice Rawsthorn, Paris*

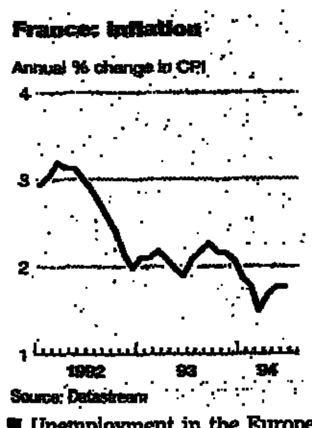
Ministers on Bosnia mission

Britain and France embark today on a diplomatic mission to persuade leaders of Bosnia's warring sides to endorse the "last-chance" partition plan. Mr Douglas Hurd, UK foreign secretary, and Mr Alain Juppé, his French counterpart, will begin a two-day tour of former Yugoslavia to step up pressure to accept the plan for Bosnia's partition by the July 19 deadline. Bosnian and Croat leaders have given conditional approval to the plan, which gives 51 per cent of Bosnia to the new Moslem-Croat federation and the rest to the Bosnian Serbs, who now control 70 per cent of the land. Lord Owen, European Union mediator, and Mr Thorvald Stoltenberg, the UN emissary, met Serbian President Slobodan Milosevic and Bosnian Serb leaders in Belgrade, paving the way for today's ministerial mission. *Laura Silber, Belgrade*

ECONOMIC WATCH

French annual inflation at 1.8%

France: inflation
Annual % change in CPI



Source: Datastream

French consumer prices remained stable in June, compared with May, giving an annualised inflation rate of 1.8 per cent, according to Insee, the national statistics office. June's figures, which were released yesterday, showed the continued weakness of inflationary pressures in France, despite the emergence of economic recovery. The weakness of price pressures in June was partly the result of the food and manufactured goods sectors, both of which saw a slip in average prices compared with May. *John Ridding, Paris*

■ Unemployment in the European Union was steady at 17.7m people or 10.9 per cent of the workforce in May, unchanged from February, the EU's statistical office announced. In May last year the rate was 10.5 per cent, Eurostat said. Since the start of this year the rate of unemployment has risen in Belgium, Germany, France, Italy, Luxembourg and Portugal but it has fallen in Denmark, Spain, Ireland, the Netherlands and Britain, Eurostat said.

■ Greek consumer price inflation fell to 10.9 per cent year-on-year in June from 11.0 per cent in May, the National Statistics Service said.

Santer favourite to head Commission

By Lionel Barber in Brussels

The contest to succeed Mr Jacques Delors as president of the European Commission has entered the last lap, with Mr Jacques Santer, the long-serving prime minister of Luxembourg, emerging as a clear favourite.

The deal is not yet done; but Mr Santer has gained ground after better-known candidates such as Prime Minister Ruud Lubbers of the Netherlands, Prime Minister Jean-Luc Dehaene of Belgium and Prime Minister Felipe González of Spain have either been blocked or have withdrawn.

"It is a candidacy of the lowest-common denominator," said a former senior Belgian minister. This may be too harsh a judgment. Mr Santer is an experienced politician who has served as prime minister since 1985 and finance minister since 1979. He is a free-trader, supports Union enlargement and an advocate of subsidiarity – the doctrine of devolving decision-making to the lowest appropriate level in the Union.

Santer: 'solid and practical'

"He is not Little League," says one senior diplomat, "he is middle-rank."

Yet the prospect of Mr Santer coming to Brussels is viewed with some trepidation at the Commission. Memories of the drift under Mr Gaston Thorn, the Luxembourger who preceded Mr Delors between 1981-85, remain strong. "Santer would mean a weak Commission," says a senior Eurocrat.

Mr Delors will not comment on potential successors; but he is said to be worried that a malleable president could encourage France, Germany and the UK to "cut the Commission down to size."

In Brussels yesterday, Mr Jean-Claude Juncker, the young Luxembourg finance minister, denied that Mr Santer was a candidate. But Mr Juncker, a likely successor to Mr Santer, added that Mr Santer could be the candidate of other EU member states.

This was probably a reference to Germany whose position is pivotal. Chancellor Helmut Kohl remains determined to strike a deal before or during a special EU summit in Brussels on Friday, so the Commission President-designate can appear before the newly-elected European Parliament on July 19 in Strasbourg.

Failure to break the deadlock would create a crisis with the European Parliament, possibly encouraging MEPs to draft their own candidate. It would reinforce an impression of disarray in the EU, undermining Mr Kohl's image ahead of the October general election.

So who is Mr Santer, and why should he be more acceptable to the British than Mr Dehaene, the candidate pushed by Bonn and Paris who stumbled as a result of Mr John Major's veto at the Corfu summit last month.

A fellow Christian Democrat portrays the Luxembourger as solid, practical, and sensible – not an idealogue. He also has a tough streak – resisting German pressure to scrap the Grand Duchy's tax privileges for foreign savers.

Yet Mr Santer lacks the flair of a Felipe González or the imagination of a Pierre Werner, his fellow Luxembourger who in the 1970s was the father of the project to create a European monetary union.

In Mrs Margaret Thatcher's memoirs, which run to 914 pages, Mr Santer merits just one reference – a swipe at the enthusiasm of smaller European countries to sign up unthinkingly to Franco-German plans for economic and political union. She describes the Luxembourger's rhetoric on EMU as "cloudy" and "unrealistic" but adds, tellingly: "We were correct in believing them to be lacking in realism; where we were mistaken was in underestimating the determination of some European politicians to put them into effect."

The search for someone "reliable" on European integration is the chief calculation in the mind of the French and Germans as they seek agreement on a new candidate.

The future Commission president must prepare for the Maastricht review conference in 1996; deal with the consequences of enlargement of the Union to 16 or more members; prepare the ground for EMU; and lay the ground for the next five-year EU budget in 1999.

It is a daunting agenda. But member states appear to be leaning in favour of a quieter life after 10 years of Mr Delors. A Mister or Madame X may yet appear; but Mr Santer may just fit the bill.

Germany urges harmonisation of EU tax system

By Emma Tucker in Brussels

Germany, keen to forge ahead with plans that would bring order to Europe's multilayered tax system, yesterday started a debate on the vexed question of taxes on savings and the introduction of a final, definitive system of VAT.

But at the first economic and finance ministers' meeting to be chaired by the Germans it became clear Commission proposals for harmonising taxes on savings – withholding tax – are unlikely to make much progress under the new presidency because of fierce opposition from Luxembourg and the UK.

In spite of this, the Germans have identified the need for a common tax on savings to be deducted at source as a priority for its presidency. Because of high withholding taxes Germany, along with Belgium, is prone to heavy flights of capital.

At yesterday's meeting, Mr Theo Waigel, the German finance minister, reminded his counterparts that when capital movements were deregulated six years ago, member states were conscious of the need to rule out distortions of competition and tax avoidance because of the differing tax systems on capital income.

But Luxembourg, which does not levy taxes on savings held by non-residents in the country, is particularly opposed to the proposal, arguing that an EU-wide withholding tax would lead to capital flight from Europe to other OECD countries where there were no, or lower, taxes on savings.

Yesterday Mr Jean-Claude Juncker, the Luxembourg finance minister, said a withholding tax would only be acceptable if it was levied in all OECD countries, otherwise Luxembourg had only a "staunch no" to say to the proposal.

The UK too is opposed to a Brussels-inspired common withholding tax. It argues that there should be a free market in taxes. "Any European system would drive business out of Europe to New York and Tokyo. Therefore a common withholding tax at source would be ineffective," said a UK spokesman.

On VAT, the battles mostly lie ahead. The commission is to present a report by the end of the year on meeting the conditions for a switch to a definitive system of VAT, in which the tax is levied in the country of origin.

Under the current system, VAT is currently paid in the country of consumption. Germany in particular supports a rapid transition to a country-of-origin based system, which they believe would be much simpler to administer.

Haiti observers told to leave in 48 hours

By Canute James in Kingston and Michael Littlejohns in New York

Haiti's military-backed government has given a team of more than 100 human rights observers, representing the United Nations and the Organisation of American States, 48 hours to leave the country, claiming they are a threat to national security.

The move created a flurry of diplomatic activity in New York yesterday, as the most senior officials of the UN and the OAS gathered to consider how to respond to it.

Mr Dante Caputo, the UN's envoy to Haiti, said that neither Mr Boutros Boutros Ghali, the secretary general, nor the head of the OAS had yet determined how to handle the situation. But the UN was not going to be pushed around.

A UN official said there were 40 UN staff and 64 representatives of the OAS, all in Port au Prince, having concentrated in the capital after withdrawing from other locations in the country. The regime had an obligation to guarantee their protection but was not doing so, the official said.

The ultimatum to remove the international mission within 48 hours was delivered without previous warning and the UN knew of no recent instance that might have provoked it.

It was issued by the military government, which overthrew President Jean-Bertrand Aristide almost three years ago, and is likely to further anger the US and other governments that have been pushing the regime to step down.

Haiti is under an international economic embargo, but the military has refused to leave office.

The expulsion order stated that the observer mission should leave the country "in order to avoid an incident or provocation". The government ordered the mission to stop its work a week ago, but the UN General Assembly subsequently renewed the mission's mandate on Friday.

Mr Caputo said yesterday that the expulsion was an outrageous provocation. "The reasons are quite obvious. They kill people. They torture people. They rape people. And they don't want any witnesses in their country."

He said the expulsion would be discussed with the governments of Argentina, Canada, France, the US and Venezuela – the "friends of Haiti" – ahead of a meeting scheduled for last night between Mr BoutrosGhali and Mr Christopher Thomas, the acting secretary general of the OAS.

● The government of the Caribbean island of Grenada has denied that it has reached an agreement with the US to provide "safe haven" to Haitians fleeing their country. The government said it had received the US request, but had not yet agreed to it.

The US government said last week that Grenada, Dominica and Antigua had agreed to grant temporary asylum to Haitians until the political crisis there had been resolved.

Johnson: another setback

Parti Québécois softens stance

By Bernard Simon in Toronto

Quebec's Parti Québécois has toned down its separatist message in a clear shift of strategy ahead of forthcoming elections in the francophone province.

The PQ is currently well ahead of the ruling Liberals in public opinion polls. But party leaders appear to have heeded findings that the PQ's popularity stems more from voters' desire for a change of government than from a dream of independence from the rest of Canada.

Mr Jacques Parizeau, the PQ leader, and other senior officials have recently played down their earlier pledge to begin negotiations on sovereignty with the federal government immediately after the election.

Instead, they have indicated that these talks will only begin after an independence referendum, which the PQ has promised to hold within a year of taking office. Some observers predict that even this timetable may turn out to be flexible, depending on the mood of the electorate.

Mr Daniel Johnson, the province's premier, is expected to call an election within the next two weeks for September 12.

The Liberals have been in office for nine years. Since taking over as premier last January, Mr Johnson has tried to overcome the protest vote by projecting an image of solid competence and by identifying the PQ with the economic costs of independence.

Although it is still too early to count Mr Johnson out, even some of his officials acknowledge that nothing short of a miracle can save the Liberals. One problem for the Liberals is that their support is heavily concentrated in the Montreal area.

Mr Johnson received another setback last weekend when Mr Claude Castonguay, a prominent federalist and former Liberal cabinet minister, expressed disillusionment with Canada's existing political system.

"I have to realise my sustained commitment . . . to the cause of Canadian unity has brought me nothing definitive but disappointment," Mr Castonguay wrote in an open letter.

Guatemalan coffee deal heralds new era

By Edward Orlebar in Guatemala City

Fifty pence may not buy a cup of coffee in London, but for Guatemalan coffee workers, an agreement to increase their daily wage by around that amount is being heralded as the start of a new era in labour relations.

The agreement, signed last week between the Guatemalan coffee association, Anacafe, and the National Unitary Council of Workers, increases the minimum daily wage from 10 quetzales (£1.14) to Q14.50 (£1.65). It also sets up a bonus scheme for higher productivity, and promises to improve living and working conditions for agricultural workers.

It is the first time the coffee industry – the preserve of Guatemala's extremely conservative economic elite – has negotiated directly with workers, and the local press has pointed to the accord as a move away from the confrontation that has fuelled over 30 years of civil war.

"The coffee sector has been the most backward in its labour relations," said Mr Mario Solorzano, a former labour minister. "This is a message that it now has a new perspective."

Wage rises used to be negotiated through the Ministry of Labour – the last one was four years ago – but they were often ignored. Last week's agreement saw the formation of a bipartisan committee to ensure that the accord is enforced.

International labour organisations and human rights groups have frequently criticised farm owners for failing to pay the minimum wage, imposing appalling working conditions, and suppressing union organisations, often violently.

Workers' council leaders believe the accord may have a knock-on effect on wages and the negotiations for the rest of the agricultural sector, which employs about 60 per cent of Guatemala's labour force.

"This is an historic agreement because it breaks with the culture of confrontation between workers and employees," said Rigoberto Duenas, a council official.

WORLD CUP

Born-again Brazil find their rhythm

Paulo Sotero says his team's destiny is to win a fourth title

If the teams playing in the World Cup are reflections of the countries they represent, as the experts in these things claim, the Brazilian national *seleção* is the perfect example. It could be said that we play like we govern ourselves.

As in other fields, it is not for lack of individual talent or an abundance of collective resources that we are not doing better in the World Cup, though our 3-2 win against Holland at the weekend, which put us into tomorrow's semi-finals, against Sweden, has steadied our nerves somewhat.

Not that our hearts weren't in our mouths as Holland rallied from 0-2 to 2-2 in Dallas, before Branco scored with nine minutes to go. After a draw with Sweden and a brush with disaster against the US, we were confronted with the reality that has afflicted us for years. The problem is leadership.

As powerful as our team is, and as determined as they are to reclaim their status as a world soccer power, they have lacked direction and sense of purpose. Prior to Holland at the weekend, the game plan had resembled some features of the constitution we adopted in 1988: it does not allow the team to play to their full potential.

More, our very ability gives our players an exaggerated sense of self-confidence. You could compare this to the abiding love we have demonstrated lately for democracy in the face of great disarray. We believe that somehow we are going to get through. But it is a messy way of doing things. It has worked so far, but it does not assure us of ultimate triumph.

The same has been happening in the World Cup. Masters of their trade, our boys play with abandon, as if the outcome was guaranteed in advance. There is no sense of urgency. After all, we have always believed that God is Brazilian.

Then, as happened in the game against the US, our shots on goal start hitting the post. We cannot find the net with shots that are impossible to miss. What's going on, we ask ourselves?

The fear is that the Almighty, perhaps angry with our presumption, our arrogance and our carelessness, has applied for a green card (the US ticket for immigrants). And then bad luck – another feature of our recent play – sets in. With less than 20 minutes left we were still tied with the US. The unthinkable became possible.

If we had been kicked out of the Cup by the inexperienced Americans, it would have been a catastrophe worse than the defeat by Uruguay in the 1950 final in Rio. It would have been the end of out self-esteem, the collapse of *futbol* in Brazil. We needed a miracle.

The feeling was strangely familiar. It resembled the lousy game we have been playing with inflation, that infamous adversary of all national teams. First, we show complacency, believing that we can live with it. Then, as inflation starts to score big against our wallets, the possibility of a disaster becomes apparent. Put against the wall, we finally act.

To dribble inflation, we use an elaborate play known as changing the currency. We are good at that. It is true that so far the magic has worked only temporarily. But it does put the adversary on the defensive for a while. The problem is that we have not explored the opportunities for scoring.

But things may be changing. Recently, after the worrisome draw with Sweden and an alarming defeat in the monthly tournament against inflation (we lost 50 per cent to nothing), we reacted with the "real," our new currency.

The name has less to do with "reality" than with "royal," (strange in a country that actually bothered only a couple of years back to vote in a plebiscite to reject a monarchy).

We Brazilians are tired of playing the same game against inflation. But the scenario is more favourable this time and the experts are optimistic.

Brazilian striker Bebeto (centre) celebrates scoring against Holland, flanked by Mazinho and Romario AP

Things may be ready to change on the soccer field, too. After the scary game against the US, the people cried for change and the players themselves moved to take charge, organise themselves and liberate the team from the straitjacket imposed by coach Carlos Alberto.

What we may be seeing, starting with the game against Holland, is a strategy that could make Brazil great again: a free market approach to *futbol*, with more reliance on personal initiative and individual talent and less interference from a coaching bench that has been acting like a bunch of bureaucrats, unwilling to take risks.

This is not an imported neo-liberal idea. It is as Brazilian as the Sugar Loaf and has always worked for us. Vicente Feola, who led us to our first World Cup in 1958, was a *laissez faire* coach.

Legend has it that he used to take a nap during practice. The only instruction his players ever remember receiving from him was: "Boys, go in there and score."

We switched coaches in 1962, but not philosophy – and won again.

In 1970, with the game already under the threat of bureaucratisation, it took a rebellion by Pelé and company against coach Mario Zagalo to assure the glory of the *tricampeonato* in Mexico.

Indications are that it will work again this time.

Recent setbacks have made us more realistic and demanding. But, as you may have noticed, we are a happy, optimistic and confident lot. And, contrary to current belief, when the going gets tough Brazil is still the only Latin American country that can really play with the big guys from Europe – even if the "big guys" are now represented only by Italy.

See you in LA on July 17.

● *Paulo Sotero is Washington correspondent for* O Estado de São Paulo.

End of an era for German veterans

It took only a few minutes after their 2-1 loss to Bulgaria in the World Cup quarter-finals on Sunday for the German team to start breaking up.

Heads low, the Germans left the field to hear goalkeeper Bodo Illgner announce his retirement. Illgner, 27, was first to go, though his decision was not prompted by age.

Several veterans are sure to leave, and captain Lothar Matthäus, 33, could be among them, although he said he had no immediate plans to quit.

The future of coach Berti Vogts also looks uncertain. Defeat marked Germany's earliest exit since 1978, when they were stopped in the second round, also as defending champions.

"Tough times are coming up for the coach, but I want to stay around as long as I'm having fun and I am still having fun," said Vogts, 47, who took over from Franz Beckenbauer after Germany's 1990 triumph.

Veteran defender Guido Buchwald, 33, is moving to Japan in the twilight of his career, and striker Rudi Völler, 34, and defender Andreas Brehme, 33, will not return.

Vogts, counting on experience, picked 12 men from the 1990 squad. But many were over the hill.

"I hope that many players will continue because we need an experienced basis," Vogts said. "But new players also have to come in and new ways have to be found. We have to rebuild now and concentrate on the 1996 European championships."

Qualifying rounds start this autumn – and Germany will play Bulgaria.

■ **Semi-Finals**

Tomorrow

Italy vs Bulgaria
New Jersey 9pm BST

Brazil vs Sweden
Los Angeles, 12.30am Thurs

■ **Final**

Sunday, July 17
Los Angeles 8.30pm

No fences for the world's party animals

Fans have mellowed the forces of law and order, writes Peter Berlin

For fans visiting the US, the World Cup has been one long party, and they have joined in with gusto.

They came prepared. They brought their flags and their face-paint, their hats, shirts, drums and horns. Every match has been played to the rhythm of songs and music quite alien to US sports fans.

Early games involving the American team were strangely genteel compared to other matches. By the later matches they had begun to learn, though they still have a long way to go to match the Brazilians, for example, with their samba bands (which have to take turns to play), or the Mexicans and Irish.

Even the Saudi Arabians – where did all those Saudi fans come from? – arrived with drums and *mizmars* (traditional horns), and sang their own version of the unofficial World Cup anthem: *Olè; Olè, Olè, Olè; Olè, Olè.*

Every match has been a sea of colour: bobbing blocks of yellow or green for the South American tour groups, all in matching caps; lumps of orange where the Dutch sat; and everywhere the tricolour green, white and red or orange of Bulgaria, Italy, Ireland and Mexico.

The friendly atmosphere has surprised the police. They were ready for hooligans. The weeks before the big start were filled with dickering between Fifa, soccer's governing body, and local police over temporary fencing around pitches. The police wanted it. Fifa said pens were for animals.

Every ground has been full of police and guards. At Orlando an armed policeman stood by each staircase. The cop who stood just below the press box, crew-cut and black-garbed, was a master of menace. During the Mexico-Ireland match he kept his back to play, staring unsmilingly through huge mirrored sun-glasses, daring some unwise fan to make his day.

By the the time the Irish returned to play Holland in the second round, however, he was going with the flow. Now he smiled. He batted a beach ball back and forth with fans and allowed them to pose for pictures in his OPD baseball cap.

Expectations on both sides have been confounded. So far as I know, no visiting fan has been car-jacked while no law-and-order official has had his (or her) eyeballs sucked out by a defeat-crazed fan.

Yesterday, the authorities said they had more trouble from American football and basketball crowds than they have had from the World Cup, which has attracted record crowds of 3m-plus.

Fifa said there had been about 400 World Cup-related arrests in the nine host cities, mainly for black-market ticket sales. Fifa secretary-general Sepp Blatter said that the fans' behaviour – sometimes in heat of 100°F-plus – had been "grand."

There are plenty of English supporters here, though many are not England fans.

It is difficult to know how England fans would have behaved if their team *had* qualified. Why did it have to be two English fans giving the harassed gate attendant so much abuse when it looked as if the flight from Dallas to Orlando last week was over-booked?

I ran into them again in Dallas last Friday night, watching the Brazilians samba from a slight distance.

"What would it have been like if England had been playing here tomorrow?" I asked.

"They'd've been smashing the place up," came the confident reply.

But they were not very observant. The place was crawling with police. Just round the corner I saw four cops, looking faintly ridiculous in summer shorts. They, too, were smiling. But they carried guns and long night-sticks. Party on Ricardo! Party on Krassimir!

US struggling to find competitive edge

By Ken Warn in Washington

The US has not solved the structural problems that have impaired its competitiveness, despite its recent economic turnaround, a report by the Council on Competitiveness warned yesterday.

The council, a panel of leaders in business, labour and higher education, warns that although many high-profile US sectors, such as the car and semiconductor industries, have regained market leadership, it is not clear that the US has created the productive assets for future growth.

"The competitiveness challenge is here to stay. We are making progress, but are in for a lengthy struggle," said Mr Paul Allaire, chairman and chief executive of Xerox and chairman of the council.

The report, Competitiveness Index 1994, combines a macro-economic study with an opinion poll of the council's members and affiliates. It highlights several deep-seated structural problems that need tackling.

- Although US investment in plant and equipment surged by 11.8 per cent last year, investment as a proportion of GDP has been the lowest of any of the Group of Seven leading industrialised nations for six of the past seven years, the report says.
- Growth in US long-term industrial research and development has been running at less than half the rate for most other G7 countries, with only the UK showing a lower rate.
- The merchandise trade deficit climbed to $131bn last year as rising imports outstripped export growth.
- In the council's survey, 91 per cent of respondents ranked the threat to competitiveness posed by weaknesses in the primary education system (from kindergarten up to 12 years of age) as their top concern.
- The US net national savings rate has been the lowest of all G7 nations for most of the past two decades, dipping last year to 1.8 per cent of GDP, little more than one tenth of Japan's savings rate.

However, the report notes several positive developments. Last year the US saw the biggest rise in the standard of living of any G7 nation, at 1.9 per cent, although this was partly a result of the recession still affecting many of the US's competitors.

US manufacturing productivity rose 4.2 per cent last year, the biggest annual increase since 1987.

Two thirds of respondents said that US overall competitiveness was good and getting better. They pointed to undergraduate and graduate education, management, quality and technology as particular US strengths.

The Clinton administration received relatively high marks for its technology and trade policies, but was urged to increase incentives for savings and investment and strengthen worker training programmes.

The biggest competitive challenge was seen as coming from Japan, followed by the newly industrialised Asian countries and China. Germany was ranked fourth. Stiff competition was foreseen, particularly in electronic components and equipment, machine tools and robotics, and cars.

"Although American companies have cut a lot of fat, many have not yet built the innovative capacity that will be necessary to compete in the future," said Mr Michael Porter, professor of business administration at Harvard Business School and project adviser for the Competitiveness Index. "Private sector investment in people and in productive assets is still much too low."

Competitiveness Index 1994; $11.50 from Council on Competitiveness, 900 17th Street NW, Suite 1050, Washington, DC 20006, US.

Mexico's open door lets in winds of change

Damian Fraser on restructuring companies to compete

THE NEW ECONOMIC ORDER

The manager of the Nissan assembly plant in Aguascalientes, Mexico, which is the only Nissan plant to export cars to Japan, says he has little interest in learning how Mexicans run their companies. "Here we do not care about the Mexican way of doing things. Anyone who works here has to think only about international standards and quality. Otherwise there is no way we can compete," says Mr Yoshitake Fujikubo.

A decade ago such comments may have caused offence. Now they can be heard throughout Mexico. To survive in the world of free trade with the US and Canada, and low-cost imports from Asia, Mexican managers are having to adapt to the practices of their international rivals, and abandon many of their traditional ways of doing business.

"In the past, when you did not have to worry about price competition and open borders, it did not matter so much how you ran your company," says Mr Ramon de la Peña of the Monterrey Institute of Technology and Advanced Studies, the management school based in Mexico's leading industrial city. "But this is all changing. There is not a company in Monterrey which is not trying to slash layers of management, be more responsive to the customer, and improve productivity."

This corporate restructuring, under way since the late 1980s, has led to average increases in manufacturing productivity of about 5 per cent a year. According to a McKinsey Global Institute study, productivity in Mexican telecommunications increased by 24.1 per cent between 1985 and 1993, in steel mills by 42.3 per cent over the same period, and in the food industry by 12.5 per cent in the five years to 1992.

The higher productivity has been achieved in large part by companies closing down unprofitable lines and firing unnecessary workers. This has contributed to higher unemployment and, over the past year and a half, a sharp contraction in the manufacturing sector.

The McKinsey study indicates that absolute productivity levels in banking, steel and food are still between 30 and 40 per cent of levels in the US, suggesting still more restructuring is necessary. The report concludes that Mexican companies can close most of the gap by improving management of their companies, adopting less hierarchical and less centralised organisational structures, and cutting bureaucracy and unnecessary tasks.

Mr Roberto Batres, a consultant with Arthur D Little, says many foreign companies in Mexico have been able to reach international levels of productivity because of superior management. "Foreign companies have learnt something most Mexicans have not learnt – the tremendous value in the Mexican worker," he said. "The Mexican workforce is a gateway to lean manufacturing, if treated right."

Set in a sprawling 200ha site a few miles outside Aguascalientes, Nissan would seem to demonstrate this. The $1bn plant has productivity levels close to those of plants in Japan and the US, according to Mr Fujikubo. And since Mexican wages are far lower than those in the US or Japan, Nissan Mexico is more competitive on a cost basis than other plants.

Nissan attributes the high productivity to world-class technology in the plant and the heavy investment in training its work force, teaching it the importance of team-work, discipline and product quality. The plant is less hierarchical than most Mexican companies, with managers working on or next to the plant floor, and taking lunch with their staff, keeping costs down, and improving corporate communication.

Mexican companies are adopting similar practices. Mr Ulrich Sander, head of corporate communication at Vitro, the glass producer and one of Mexico's largest industrial concerns, says layers of management are being removed so the company can cut costs, and compete better against international rivals.

He says Vitro is reducing its workforce by 20 per cent to 30,000, with a heavy proportion of non-union workers losing their jobs, such as accountants and secretaries.

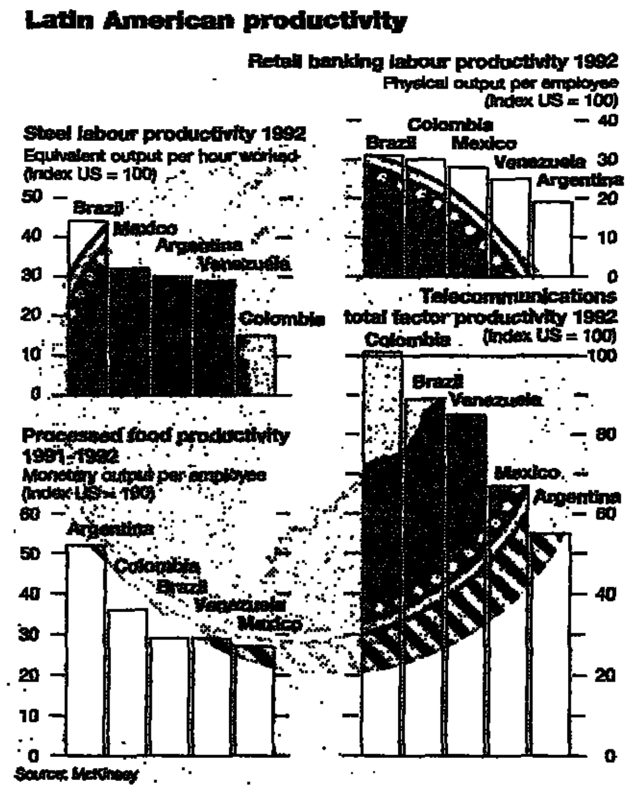
Mr Sander notes that a few years ago he had 10 secretaries report to his division; now he has one. His responsibilities have grown as the company has sought for the first time to keep workers informed about what is going on at the corporate level.

Even though Vitro is admired as one of the more modern and efficient companies in Mexico, the process has to go further, says Mr Sander. Earlier this year Corning, the US glass company, broke its joint venture with Vitro, subsequently saying that Vitro's management took decisions too slowly, was too hierarchical and insufficiently aggressive for the American company, criticisms partly accepted by Mr Sander.

Vitro "is caught between the demands of Mexico's emerging free-market economy and a corporate culture steeped in tradition," said Mr Ernesto Martens, Vitro's chief executive, in an interview with Harvard Business Review. Mr Martens said that Vitro had to walk a "tightrope" between losing its identity as a Mexican company with a unique culture, and being battered in the world market place for not changing fast enough.

This article is the fourth in a series on the recovery in Latin America. Previous articles appeared on June 24, 30 and July 5

Latin American productivity



Caracas exchange remains paralysed

By Joseph Mann in Caracas

Most foreign exchange operations remained paralysed in Venezuela yesterday as the banking system began implementing a complicated exchange control system, backed by stiff penalties. The system was finally approved by the government at the weekend.

Representatives of the country's main commercial banks met exchange control officials late on Sunday to discuss the details of the new system, but said it would take time to train employees and implement the controls effectively.

Venezuelans have been unable to carry out exchange operations since the last day of foreign exchange trading on June 23. President Rafael Caldera announced the government's decision to impose controls on all foreign exchange transactions on June 27.

Some bankers fear it may take another 10 days for many companies to obtain foreign currency. The Caldera administration is drawing up a law carrying stiff penalties, including jail sentences, for violations of the foreign exchange rules, and this has made the banks extremely careful in implementing the rules.

There is no system yet in place that would guarantee customers did not abuse the foreign exchange regulations, for example by applying for the maximum limit at several different banks.

Commercial banks were yesterday not buying or selling foreign exchange, and only one large exchange house said it would sell dollars to clients if they met the new official requirements. Most foreign businessmen and tourists are being forced to change small amounts of foreign currency at hotels, or on the street.

Under the new system, commercial banks will sell foreign exchange to eligible clients at 170 Venezuelan bolivars per US dollar, plus a commission. The last trades on June 23 were at around 200 bolivars per dollar.

Cuba's Nafta fears calmed

By Canute James in Kingston

Canada and Mexico will maintain their economic links with Cuba, despite the US embargo of the island, according to Mr Jorge Bolanos, Cuba's deputy foreign minister.

Cuba had feared that the US might object to the recent expansion in trade and economic relations between its two partners in the North American Free Trade Agreement, and Cuba. However, Cuba had been told that trade with Canada and Mexico would continue, and that both countries would support an end to the embargo, said Mr Bolanos.

"This is the assurance we sought and which we have finally received. Both Canada and Mexico have argued publicly against the continuation of the economic embargo," he said.

"There is now no chance that either the Canadian or Mexican governments will concern themselves with what the US has to say about commercial links with Cuba."

In diplomatic discussions with Canada and Mexico, Cuba was told that it had no reason to be concerned for the effects of the implementation of Nafta on Cuban trade and economic relations.

However, Cuban officials continued to hint at the possibility of "subtle pressure" by the US on the other Nafta members to reduce economic links with Cuba or to eliminate them altogether. "Cuba has now been comforted by both the Canadian and Mexican governments through visits to the island and statements by officials of both governments," Mr Bolanos said.

President Carlos Salinas of Mexico had recently indicated his government's desire to enhance trade with Cuba, and there had been similar assurances on her visit to Havana from Ms Christine Stewart, Canada's parliamentary secretary for foreign affairs.

US seeks to curb EU aircraft moves

By Nancy Dunne in Washington

The US aerospace industry is seeking to insert into the Uruguay Round implementing legislation, now being written in Congress, language which would head off European Union efforts to curb indirect aircraft subsidies.

The industry has also expressed concern that a proposed 600-seat Airbus airliner will require direct government support which would breach limits in a US-EU bilateral agreement.

The Aerospace Industries Association has told Mr Mickey Kantor, President Clinton's trade representative, that if the limits are exceeded, the US should reinstate its complaint against Airbus in the General Agreement on Tariffs and Trade.

Such a move would be regarded as highly provocative in Brussels, which is increasingly angered by US refusals to negotiate curbs on indirect support in the Gatt.

The EU claims that the US industry benefits substantially from such assistance, in the form of research and development contracts granted by the Pentagon. The EU is also unhappy about aid to the industry by the US National Aeronautics and Space Association.

Mr Mickey Kantor, the US trade representative, has promised not to negotiate new disciplines which would be "unacceptable" to the US industry, but the AIA still hopes to get the policy enshrined into law.

In a proposed draft of language for the Uruguay Round implementing legislation, the AIA calls for "rejection of any new disciplines on indirect supports for civil aircraft which are different or apart from those that would apply to all industries." The only exception would be limits agreed in the 1992 US-EC agreement "solely with respect to large civil aircraft."

The US and EU agreed to "multilateralise" the agreement but talks last week made little progress, and the negotiators will not meet again until September.

The bilateral pact has some limits on indirect supports and limits direct supports to Airbus to 33 per cent of programme cost.

Boeing, Airbus in costs dogfight

Paul Betts on the battle to make aircraft more quickly and more cheaply

The two leading commercial aircraft manufacturers, Boeing of the US and its European rival Airbus, are dreaming of out-jumboing each other by building the world's biggest airliner with seating for 800 or more passengers.

However, the real commercial battle between the two is to build their current aircraft more quickly and more cost-effectively in response to structural changes in the airline market, provoked by the biggest slump in the history of the airline industry.

"It is no longer so much what you build but how you build it that will make the difference," said a senior Airbus executive. "Aircraft manufacturing is now shifting from a purely product-, research- and development-driven business to one where the manufacturing process will give a manufacturer the edge over its rival," he added.

Although air traffic is recovering after four years in which airlines lost more than $15bn (£9.8bn) on international scheduled services alone, this is unlikely to lead to a rapid rise in returns generated by passenger numbers.

"It is becoming more and more evident that revenue, rather than traffic, is the key to airline profitability," says Mr Adam Brown, the head of strategic planning at Airbus. "In many markets, air travellers have now become accustomed to paying a particular fare level; and if fares are increased, they simply don't fly. So the airlines now have no choice but to find a way to provide a service at this fare level rather than as in the past seeking to maximise the fare charged for providing the service," he says.

With pressure on yields continuing, airlines will have to rely increasingly for their profits on cost reductions and operational efficiencies. In turn, they will seek aircraft that cost less to buy and less to run.

"We are all having to adapt to this new environment," says Mr Claude Terrazzoni, head of the commercial aircraft division of Aérospatiale, the French partner in the four-nation Airbus consortium, which includes Deutsche Aerospace, British Aerospace and Casa of Spain. "Boeing is now cutting its production costs by 25 per cent: either they want to kill us because they think Airbus can't match such cuts, or they are adapting to the structural change in the airline industry with low fares, or they are trying to do both," he adds.

Boeing recently reaffirmed its commitment to drive down costs and manufacturing time "to make sure we remain the world's most competitive manufacturer of commercial jets". Mr Ron Woodard, the head of Boeing's commercial aircraft operations, said in the company's staff magazine: "We decided to prepare for the future today, while we're number one because number two is unthinkable".

The Seattle-based company has already reduced the order-to-delivery time of its wide-body aircraft, such as the 747 and the 767, from 18 months a few years ago to around 10.5 months and wants to bring it down to eight months. It eventually hopes to achieve the same target for the new 777 which flew for the first time last month.

Boeing has already reduced the production cycle time for its narrow-body aircraft, including the 737 and the 757, to nine months and is planning to make it six months by 1996.

Airbus says it is confident it can meet the productivity challenge set by Boeing. Although the European consortium's complex four-nation structure is a handicap, Mr Jean Pierson, the Airbus chief executive, has set similar targets for Airbus aircraft production.

"For narrow-body aircraft we are also aiming at an order-to-delivery target of six months in 1996. Today it is 12 months, next year it will go down to nine," he said. For wide-body aircraft such as the A330, A340, A300 and A310, Airbus has already reduced production cycle times from 15 months to 12.5 months and plans to go down to nine months by 1996.

Mr Woodard of Boeing said the reduction in manufacturing cycle times was already producing big payoffs for the US company. "One payoff is in the area of inventory. By the end of 1993, as a result of our cycle time reduction efforts, we had reduced our inventory by more than $1bn compared to business as usual," he said.

Boeing's cost-cutting drive has included extensive work-force cuts involving 28,000 people in 1993 and 1994; the application of new commuter and automated manufacturing techniques; and new organisational structures to improve internal working relations and practices. Some 60,000 employees have already attended during the past three years special courses which Boeing calls "World-Class Competitiveness".

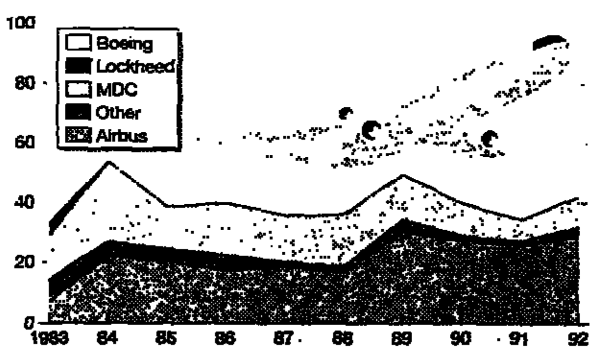
The response at Airbus has been to cut up to 5,000 jobs between 1992 and 1995; maximise the use of investments in automation and computer aided manufacturing; and simplify and streamline the consortium's complicated manufacturing and assembly processes.

This has led to improvements in Airbus productivity. BAe, for example, now takes 85 days to build a wing for an Airbus airliner instead of double the time 18 months ago. Deutsche Aerospace is phasing out a number of plants and regrouping its Airbus work on fewer and more efficient sites.

But the task for Airbus remains daunting. The challenge for the European group is to transform what was at first conceived of as a job and wealth creation consortium to compete against the dominance of the US aerospace industry into an independent company, mature enough to rationalise and restructure and stand on its two corporate feet.

It has started transforming itself, but the process is a slow and difficult one. Unless it accelerates the tempo, it will find it hard to keep up with the pace of change at Boeing.

Commercial jet aircraft orders



Source: Airbus

Vietnam approves cannery joint venture

By Victor Mallet in Bangkok

Vietnam has approved a $41m (£26.9m) joint venture by Swire Pacific of Hong Kong, Crown Cork and Seal of the US and two Vietnamese state companies to make aluminium beverage cans in the north of the country, Swire Pacific said yesterday.

Crown Vinalimex Packaging (CVP), the joint venture, aims to produce more than 400m cans a year for Vietnam's expanding soft drink and beer markets.

In southern Vietnam, CarnaudMetalbox and Saigon Brewery recently began work on a $54m aluminium can factory with a capacity of some 460m cans a year near Ho Chi Minh City.

Construction of CVP's factory in Ha Tay province near the capital Hanoi is to start in October and should be finished within 18 months. CVP will be 33 per cent owned by Swire Pacific, 34 per cent by Crown Cork and Seal, 20 per cent by Vinalimex and 13 per cent by Ha Tay Foodstuff Complex Factory.

Swire Pacific, which controls Cathay Pacific Airways, said the factory was its first substantial non-aviation investment in Vietnam. Hong Kong is the second largest foreign investor in Vietnam after Taiwan. US companies were unable to commit funds until President Bill Clinton lifted the US economic embargo against Vietnam in February.

Vietnam's communist government has welcomed foreign investors since it embarked on economic reforms in the late 1980s. Investors are keen to tap into this poor but fast-growing economy of 70m people, although bureaucracy, corruption and rivalry between central and local authorities have delayed some projects and restricted profits.

Last week it emerged that the State Committee for Co-operation and Investment, the body that licenses foreign projects, had blocked plans for a Coca-Cola bottling plant in Ho Chi Minh City on the grounds that soft drink supplies in the south were already sufficient.

● A joint venture between PepsiCo PeP.N, a Singapore company and a Vietnamese state company plans to apply for licences to build two bottling plants in Hanoi and Danang, Reuter adds from Singapore. The joint venture has been operating a 600 bottle per minute plant in Ho Chi Minh City for 18 months.

BMW sets up assembly offshoot in Mexico

By John Griffiths

BMW said yesterday it had established its own subsidiary to prepare for the assembly of cars in Mexico, starting next year. The German executive carmaker said that the new company, BMW de Mexico, was also to take over from its Mexican importer responsibility for developing and supporting BMW's dealer network in the country.

BMW said cars were to be assembled from next year at a rented plant at Toluca, 60km west of Mexico City.

Only "several hundred" 3 -Series will be produced next year. However, the Mexican market is already the second largest in Latin America after Brazil and, following its inclusion in the North American Free Trade Agreement, is regarded by BMW as offering rapid growth potential.

A purchasing office is also to be set up by BMW de Mexico to create a network of local component suppliers. The volume of cars BMW will be allowed to produce in Mexico is geared to the percentage of domestically-produced components it can build into the vehicles.

The new subsidiary will take over the dealership and distribution functions of its Mexican importer, Grupo Bavaria. However BMW de Mexico is also to establish a separate operating subsidiary to run the assembly facilities, in which Grupo Bavaria is to have a minority stake.

OECD Export Credit Rates

The Organisation for Economic Co-operation and Development announced new minimum interest rates (%) for officially-supported export credits for July 15 to August 14 1994 (June 15 1993-July 14 1994 in brackets).

D-Mark	7.54	(7.32)
Ecu	7.99	(7.57)
French franc	8.13	(7.53)
Guilder		
up to 5 years	7.55	(7.20)
5 to 8.5 years	7.90	(7.70)
more than 8.5 years	8.35	(8.35)
Italian lira	9.92	(8.98)
Yen	4.20	(4.20)
Peseta	10.82	(10.11)
Sterling	9.44	(9.36)
Swiss franc	6.28	(5.82)
US dollar for credits		
up to 5 years	7.27	(7.34)
5 to 8.5 years	7.70	(7.78)
over 8.5 years	7.91	(8.01)

These rates are published monthly by the Financial Times, normally in the middle of the month.

A premium of 0.2 per cent is to be added to the credit rates when fixing at bid. Interest rates may not be fixed for more than 120 days.

SDR-based rates of interest are the same for all currencies. For the period from July 15 to January 14 1995, the SDR-based rate will be 7.35 per cent. It replaces the previous rate of 5.95 per cent. The SDR-based rate will again change on January 15 1995.

Plan to phase in electronic bills of lading

By Charles Batchelor, Transport Correspondent

Electronic bills of lading could begin to replace the paper documents currently in use from next year if a project funded by the European Union proves successful.

The main problems involved in moving to an electronic bill, a document which itemises a cargo and details its destination and route, have been solved, Mr John Reeve, senior partner at Touche Ross Management Consultants, said yesterday.

A 15-month Ecu3.7m (£2.9m) pilot project financed jointly by the European Union and the private sector will spend the next year testing the Bolero project with a group of up to 30 private sector users.

If the system proves itself, it could free the log-jam currently blocking the widespread use of electronic transfer in the field of shipping documents. Since bills of lading are negotiable – they confer ownership on the person holding the document – the problems of security have proved particularly taxing.

Electronic bills of lading should provide a faster, more secure means of communicating cargo information than a paper document which can be lost, stolen or forged. They could also reduce errors which frequently delay acceptance of shipping documents.

But if shippers, shipowners and others involved in seaborne cargoes can be convinced, then electronic data interchange could be used more widely for insurance certificates, customs documents, letters of credit and other banking documents. The main difficulties involved ensuring that a bill of lading in electronic form was genuine and developing the computer technology which could be used easily by shipping clerks.

The security issue has been circumvented by Cable & Wireless, the telecommunications group and a partner in the project, which will act as "trusted third party" to guarantee that an electronic bill is genuine. Previous attempts to launch electronic bills foundered because potential participants did not regard the guarantor, in one case a bank, as an independent party.

Subscribers to the the Bolero system would require a personal computer terminal, applications software and a card giving providing secure access. The initial investment should amount to a few thousand pounds, which should mean that it is affordable even by small shippers, Mr Reeve said.

Members of the development consortium include Cryptomathic, a Danish security consultancy; Denton Hall, a UK law firm; Istev, an Italian information technology institute; and Unisource, a Dutch business telecommunications company.

The user group which is testing the system includes BAT, the tobacco and financial services group; Nedlloyd Lines, Maersk Line, Chase Manhattan Bank and United Distillers.

EU increases quota of toys from China

By Guy de Jonquières, Business Editor

The European Commission has proposed a 24 per cent increase in the value of the EU quota on toy imports from China this year, in an effort to ease disruptions to trade caused by the abrupt imposition of the curbs in February.

The Commission proposal, to be announced tomorrow, must be approved by the Council of Ministers. It would raise the value of the quota by Ecu150m (£115.5m) to Ecu780m. The increase would be retroactive to March 15, when the quota took effect, and would run to the end of the year.

The quota, which covers items including teddy bears, was imposed as part of a package deal under which EU members agreed to scrap about 6,500 national import restrictions inconsistent with the single European market.

The quota was designed chiefly to mollify Spain, where toy makers are worried about low-cost competition from China.

Toy Manufacturers of Europe, the main industry group, has said 500 jobs would be lost in Europe, and its members' sales and profits would suffer. Though the proposed relaxation is likely to be welcomed by the industry, it does not fully compensate for the 50 per cent drop in imports' value expected this year before the quotas were imposed.

Last February's decision is being challenged in the European Court of Justice by the UK Department of Trade and Industry, which sought unsuccessfully to block it in the Council of Ministers.

Last week, China attacked the quota on toys, silk and other items.

London costs for foreign banks rise

By Alison Smith

The costs of setting up and running an international bank branch in London have been rising over the last couple of years after a dip in 1992, to reach record levels in many cases.

The findings come in an analysis by Noel Alexander Associates, a consultancy which specialises in financial statistics. It looked at four separate cases – setting up a just a London representative office, or establishing a branch in any one of three sizes.

The number of foreign banks in London has been rising in recent years, and is currently over 500.

The study showed, for example, that both the opening and annual costs of setting up a small branch at £2.14m and £984,000 respectively, were above the previous records of £1.86m (in April 1993), and £963,900 (in February 1990).

The annual cost of running a medium-sized branch was estimated at £2.24m, compared with £2.12m in April last year, while the opening cost for such a branch was £3.28m – above last year but slightly down on the highest figure of £3.30m in February 1990.

The study also highlighted the notably higher costs of setting up a representative office using an expatriate rather than a UK resident. The start-up cost of such an office with an expatriate is estimated at £622,550, while with a local representative it falls to £273,590. Annual running costs are also cheaper for the local option – £235,370 against £308,520.

A marked change in comparison with some previous years is that property costs make up a small proportion – around one-tenth – of the calculations. This is partly because, the consultancy says, the London property market is such that it is possible to negotiate a deal offering two or three years occupation rent-free.

Predictably, staff costs are the largest single element in the budgets, ranging up to three-quarters of the totals.

UK moves to close social security 'loophole'

Payments stopped to 'benefit tourists'

By John Willman and David Marsh

The government yesterday announced that it was stopping the payment of three social security benefits to citizens of the European Economic Area on temporary visits to the UK.

From August 1, people from the EEA (the EU plus the Efta countries) will have to prove that they are habitually resident in the UK to claim income support, housing benefit or council tax benefit.

These means-tested benefits are paid to people on low incomes as a form of "safety net".

Mr Peter Lilley, social security secretary, said that the measures would bring an end to "benefits tourism", the use of the social security system to finance stays in Britain.

"In recent summers we have seen a growing number of European nationals taking advantage of the accessibility of our benefit system to spend a few months in Britain at the taxpayer's expense," Mr Lilley said.

Entitlement to these benefits was stopped for most people from outside the EEA at the beginning of April. A series of court hearings involving foreigners who had abused the benefits system enraged Tory MPs and led Mr Lilley to promise action at last year's Conservative party conference.

Mr Lilley admitted yesterday that he did not know how many people from the EEA were involved in benefit tourism. "It is probably quite small, a few thousands at the start. But if we were not to close this loophole it would grow."

There will be no restrictions on freedom of movement, he said. People from the EEA would still be welcome to seek work in Britain and would be paid contributory benefits such as unemployment benefit if they already received it in their own country.

Mr Lilley said that the measure would close a loophole the existence of which amazed other European countries.

He added: "Most other European countries do not permit this kind of behaviour and neither should we."

However, the German Family Ministry in Bonn – responsible for sustenance payouts under the country's social security system – pointed out that Germany, too, was sometimes the target of foreigners seeking to profit from generous social payouts.

Needy people – both Germans and non-Germans – can claim living allowance benefits of DM1,100 a month. The system is available to homeless people and thus not limited to those with residence permits.

Non-Germans qualify only if they convince local social security offices that they did not travel to Germany specifically to claim allowances, a ministry spokeswoman said.

Mr Donald Dewar, Labour's social security spokesman, said it was right to root out abuse of the benefit system, but he had serious reservations about the government's approach.

"Any reform must be based upon proper research and effectively target those responsible for abuse," he said. "The government must demonstrate that the new regulations are fair and workable."

Power executives make big paper profits on options

By David Lascelles, Resources Editor

The managing director of Midlands Electricity who resigned in a top level management shake-up last year, left with a pay-off and other benefits worth over £1.2m, according to the company's accounts.

The publication of electricity industry annual reports also disclosed that electricity company directors have made several million pounds of paper profits on executive share option schemes set up at the time of privatisation.

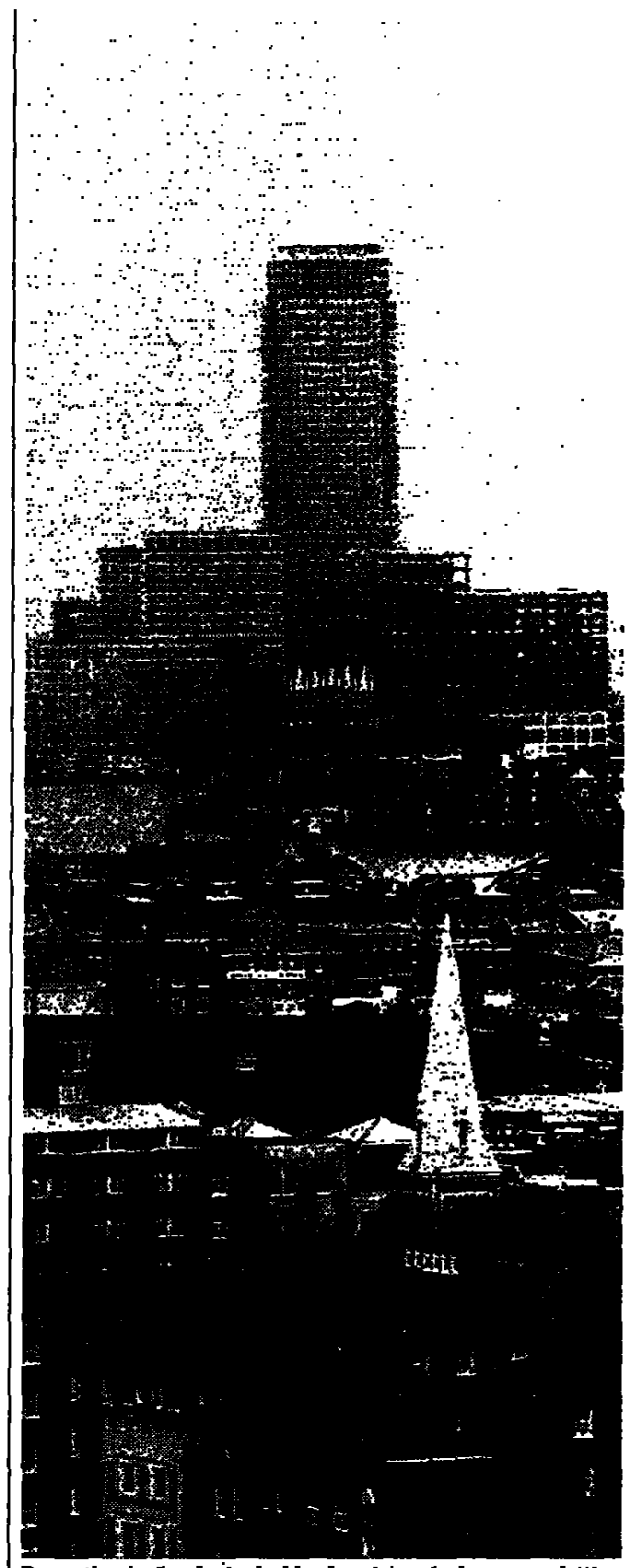
Mr Richard Young, who left Midlands in 1993, was paid £398,000 in compensation for loss of office plus £262,000 in pension contributions. He also held options to buy 145,000 shares at a paper profit of at least £4 each.

Mr Young was on a multi-year contract, and was entitled to special pension payments under the electricity industry pension scheme. He received the share options along with other Midlands executives under the company scheme.

All the privatised electricity companies set up option schemes in January 1991 to provide incentives for senior executives. For tax reasons these could not be exercised until the beginning of this year. But since then, dozens of executives have taken advantage of the boom in electricity shares to cash in the options, which give the holder the right to buy shares at prices well below those in the market.

Apart from Mr Young, five Midlands Electricity directors bought nearly 600,000 of shares at 258p at a time when the company's shares were trading between 634p and 732p.

Directors at the East Midlands Electricity took 770,000 options at prices which will have yielded them a paper profit of at least £2m. Yesterday also brought details of options deals at Swalec, the S Wales utility, where Mr Wynford Evans, the chairman, exercised options on 111,510 shares, netting a paper profit of just under half a million pounds.



Properties in London's docklands, pictured above, are letting and selling faster than at any stage since the late 1980s, the London Docklands Development Corporation said. Some 800,000 sq ft of offices were let during the year to March, the most since 1987 and 50% more than the previous two years combined. The LDDC said that 75% of all private sector investment in the huge development has been from overseas. Picture: Fergus Wilde

Hurd tries to rally Eurosceptics over EU enlargement

By Ivor Owen, Parliamentary Correspondent

Mr Douglas Hurd, the foreign secretary, appealed to Tory Euro-sceptic MPs in the House of Commons last night not to oppose the legislation enabling Britain to agree to the the entry of Sweden, Finland, Norway and Austria into the European Union.

He argued that if their fears that the new entrants would give fresh impetus to the development of the EU's social dimension proved well founded it would increase the value of Britain's opt-out from the relevant section of the Maastricht treaty.

Mr Hurd urged the Eurosceptics not to start opposing enlargement of the EU "simply because we do not always agree with all the views of those who come in".

He stressed that as Sweden, Austria and Norway would be net contributors to the European Union's budget they would share Britain's interests in budgetary discipline and value for money.

Mr Hurd also emphasised that as a result of the additional number of net contributors it was expected that Britain's contribution would be some £300m less over the first six years of accession than it would otherwise have been.

Other favourable factors included the benefit to Britain's agricultural exports through the opening of the previously highly protected markets of the four applicant countries.

Those involved in Scotland in off-shore supplies for the oil industry would also benefit, he said, from Norway's acceptance of the EU's rules.

Mr Hurd forecast that overall British business would benefit, "not hugely but significantly", from the enlargement of the EU.

Mr John Cunningham, opposition foreign affairs spokesman, promised the support of the official opposition for the bill in the event of a vote being forced against it.

He said a Labour government would not work with Italian ministers who were "neo-Fascists", but denied that this amounted to saying it would not co-operate with the Italian government.

Farm advisory body earmarked for sale

By John Willman, Public Policy Editor

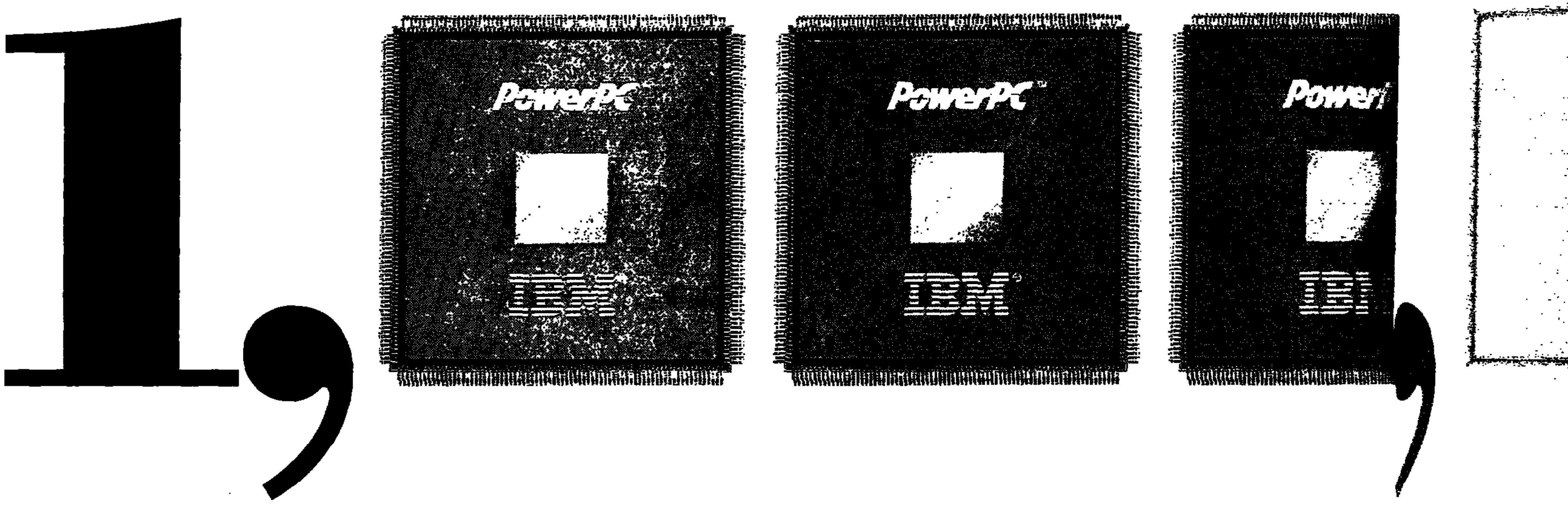
Two Whitehall research agencies have been recommended for privatisation in a report published by the Cabinet Office Efficiency Unit yesterday.

The report on government research establishments recommends privatising Adas, the farm advisory and research agency with a large agricultural consultancy practice. The Ministry of Agriculture, Fisheries and Food is reviewing its future. Adas was identified as a candidate for privatisation when it became an agency in 1992.

The report also recommends privatising elements of the Building Research Establishment, the environment department agency that carries out research on the design, construction and performance of buildings.

If the government accepts the report's recommendations, research laboratories accounting for almost 50 per cent of spending on public sector research establishments will be in line for privatisation. The 50 establishments employ some 31,000 staff and cost about £1.3bn a year to run (some of which is earned in fee income).

Research establishments not ready for privatisation should be considered for transfer to universities or to private sector companies, the report recommends.

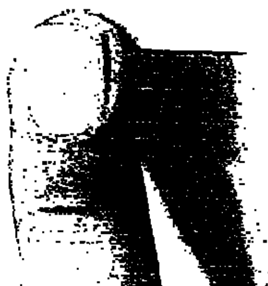


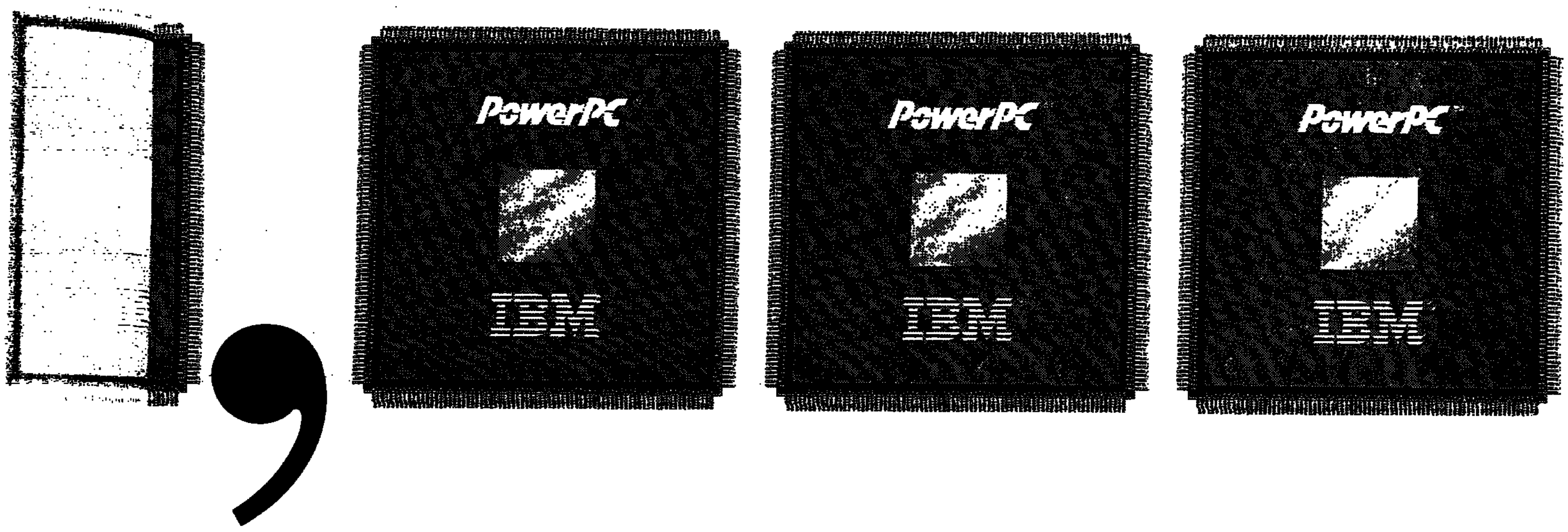
Thanks a million. In July, we'll ship our one millionth IBM PowerPC 601™ microprocessor, after just ten months of production.

The momentum behind the PowerPC™ is driven by the possibilities customers see in this revolutionary technology.

The extraordinary and affordable power of this RISC-based technology makes practical such innovative applications as realtime voice dictation, wireless networks, voice and handwriting recognition, and full-screen, full-motion multimedia, to name only a few.

Today, some of these capabilities are already at work





in desktop computers powered by our high-performance, low-cost PowerPC 601. In the not-so-distant future, customers can look forward to even more advanced systems – from palmtops to supercomputers – incorporating the PowerPC 603,™ PowerPC 604™ and PowerPC 620.™

To all those who helped us reach our one millionth milestone, we extend our thanks. To everyone else we extend this invitation. For more information about our family of PowerPC microprocessors, call IBM in Europe at (33) 6713-5757 (Français), (33) 6713-5756 (Italiano), (49) 511-516-3444 (English), or (49) 511-516-3555 (Deutsch). In Japan, call (81) 775-87-4745.

IBM®

MANAGEMENT: THE GROWING BUSINESS

Fujitsu staff go it alone

In Japan, where lifetime employment is the norm and people tend to be paid on seniority rather than merit, leaving the corporate fold to set up a risky new business is almost unheard of.

But Fujitsu, the computer company, wants to encourage some of its 54,000 Japanese employees to do just that and maybe help them become rich in the process. As part of its campaign to make staff more flexible, it will put up money for them to strike out on their own to develop new technology products and services.

The idea of corporate venturing is well established in the US and, to a lesser extent, in the UK. Despite the absence in Japan of a widespread venture capital mentality, Toru Katsurada, Fujitsu's planning and personnel director, hopes technology experts can be spurred to develop an aggressive entrepreneurial streak. The programme, called new venture system, is still at an embryonic stage, with only two projects (still confidential) under consideration.

It was announced last month and, believes Katsurada, is virtually unique in Japan. For every venture it approves – up to five are expected to be launched each year – it will match funds from the ex-Fujitsu owner, who will own 51 per cent.

"It's a high-risk, high-return programme," he adds. "We might lose an excellent engineer and incur a large loss if the venture fails – but we might be able to introduce new products as a result of this system."

Fujitsu will expect each venture to start making profits after three years. Because Japanese stock market listing requirements are so strict, start-up companies cannot easily use flotation as a way to take profits. So if the owner wants to sell, Fujitsu will buy the shares at a "very high" negotiated price, if justified.

The ventures could be in any area of information technology, says Katsurada.

Andrew Fisher

John Cummings: 'We have been in an innovative period. Now there is a period for good product and market development'

Tony Andrews

Call for a repeat performance

You must remain innovative but in doing so you could lose everything. **Richard Gourlay** on a necessary risk

Producing a technological innovation that will create a market and launch a company is difficult enough. Repeating the trick so that the competition does not catch up and turn your innovation into a commodity product is altogether a trickier proposition.

The result is that many companies that should have sold out after stage one are unable to maintain the momentum into stage two and see their value fall.

One company that is trying to negotiate the tricky path of innovation is Newport Technology Group, a maker of electrical components based in Newport Pagnell, Buckinghamshire.

Four years ago the company developed a new way of making small DC-DC converters – devices used by design engineers to produce the different voltages required by small components and to isolate power sources.

The converters are an unlikely hybrid. Using skills originally developed in the local lace-making industry, a small army of part-time outworkers "sew" the wire windings on to Newport Technology's miniature ferrite transformers.

This cottage industry is then brought together with the 20th century. The windings are mounted on a ceramic substrate, or board, which disperses heat more efficiently than the printed circuit board used by many DC-DC converters. The result is that Newport Technology has consistently been able to make its converters smaller than the competition's, saving valuable space.

Not only has Newport Technology carved out a worthwhile slice of the niche DC-DC converter market and built sales from £1m to nearly £8m in four years. The improved margins have helped finance innovation in the production process so that the "sewing" ladies now share a factory with robots that help assemble the converters.

The manner in which Newport Technology has innovated products and processes is instructive. Since the first innovation, the company has moved relatively cautiously. But the initial break with the company's worthy past required a degree of entrepreneurial chutzpah.

John Cummings, the recently arrived managing director of Newport Components, the main group subsidiary, says the team which backed the push into hybrid DC-DC converters took a gamble.

"John Baxter [the technical director] was convinced there was a market but there was no established market," he says. The customers did not know they wanted the product until they were told it could be made at the right cost. He compares the process with the selling of televisions in the 1950s when the existing market was still small.

John Laurie, who invested in Newport Technology in 1990 and is now group managing director, says deciding whether to back innovation is tricky. There must be a balance between getting ahead of what the customer wants but not so far ahead that the customer is not interested. No one wants to suffer the fate of Philips, the Dutch electronics group, which introduced the laser disc before the market was ready. "There is no point developing something if no one wants it," says Laurie. "But it's a fine balance because if you are creating a market you have to stick your neck out."

Newport Technology believes this move led to the development of a converter that electronic product designers say is now a standard part of their tool kit.

The company took a similar risk when it replaced the manual placement of components with a robot-controlled process. "Initially it was a bit of a punt going with robotics," says Laurie. "We were not sure the computer could handle the accuracy of placement." But with some modifications of the software it has become a feature of its operation, leading to a better quality, yield and reliability.

The innovation of the hybrid DC-DC converter was followed by dozens of further developments, many leading to reductions in size or increasing capability to isolate high voltages. But Cummings says most of these developments would not be classified as innovations. "We have been in an innovative period. Now there is a period for good product development and market development," he says.

Many companies do not get beyond this stage, according to Stuart Slatter, visiting professor at the London Business School and author of the book *Gambling on Growth: How to Manage the Small High-Tech Firm*. "So many British companies have an innovation that is enough to start up a company that gets sales of £5m and then they have to come up with the next generation," he says. "Often the next generation involves a new jump that is like starting a company all over again."

Newport Technology has in practice accepted this. But instead of seeking its next innovation within the main operating company, it has set up a discrete subsidiary, Newport Power Devices. This separately funded company is developing ways to measure the life and residual power of lead acid batteries.

"John [Laurie] is not confusing the need for the next level of innovation with the money-making requirement of the existing idea," says Cummings.

For Newport Technology, the mixture of product development and innovation – and the ensuing improvement in margins – has put it in a virtuous circle. The group has just opened a new manufacturing facility in Guangdong, China, to increase capacity and take advantage of lower labour costs.

This has given Newport Technology the option to consider moving into the US – where it recognises margins will be squeezed – and in particular the mass market supplying makers of boards for local area networks, each of which require a DC-DC converter.

With Lans spreading at rapid pace, the attractions of the market are clear. But Newport Technology does not want to lose the fruits of successful innovation by going the way of so many British companies that have been dazzled by the US market and stumbled.

A bar to corporate borrowing from building societies is being removed

Shy lenders on the high street

When Alliance & Leicester Building Society bought Girobank in 1990, it was not allowed to take over the bank's commercial lending portfolio. To have done so would have contravened the 1986 Building Society Act.

In retrospect, Alliance & Leicester might be grateful that it was spared the dreadful losses many commercial banks suffered in the recession from lending to smaller companies.

But government plans announced last week mean that, subject to members' approval, building societies will be able to expand dramatically their lending to corporate customers.

According to Anthony Nelson, Treasury economic secretary, this will provide a welcome new source of funds for business and "introduce a new element of competition into an area traditionally dominated by a small number of high street banks".

Are building societies likely to want to compete with high street banks and would this move be welcomed by borrowers?

Under the 1986 act, the societies have been able to lend if their loans are secured on assets such as pubs, hotels, nursing homes and factories. "Some regret doing it," says Adrian Coles, director-general of the Building Societies Association.

They will now in theory also be allowed to lend against any type of asset, or even unsecured.

The BSA has given this part of the government's proposed changes a lukewarm reception. But they welcome the changes at the smallest end of the market. In the past, societies lending to sole traders had to stop lending if they incorporated. "We did not see why we had to withdraw because the sole trader incorporated," says Coles.

The reaction from small-business lobby groups has also been less than universally enthusiastic. They welcome any move that increases sources of lending because that would tend to bring down the cost of borrowing. But they would not want a return to the experience of the past five years when, they say, over-zealous lending has been followed by a cooling of banks' enthusiasm.

The plan to increase competition is most likely to be thwarted, however, by the building societies' own reluctance. The most compelling example of that disinclination can be found at Abbey National, which shed its building society status in 1989 when it became a publicly quoted bank.

Since then Abbey National has made no move into commercial banking and says it has no intention of straying beyond its personal finance market.

The societies are fully aware of how badly the banks were damaged by the recession. Their losses are well recorded. But the societies are just as scared of the bad publicity that banks received after cutting overdraft lines and calling in receivers.

"Most societies will be very wary and approach commercial lending tentatively," says Coles. "They will see what the banks lost in the early 1990s and what happened to the banks' PR."

Chris Smith, analyst at stockbrokers James Capel, also doubts that societies will now rush into commercial lending.

Small and medium-sized corporations are repaying more than they are borrowing at the moment, meaning the societies would be chasing a share of a shrinking market.

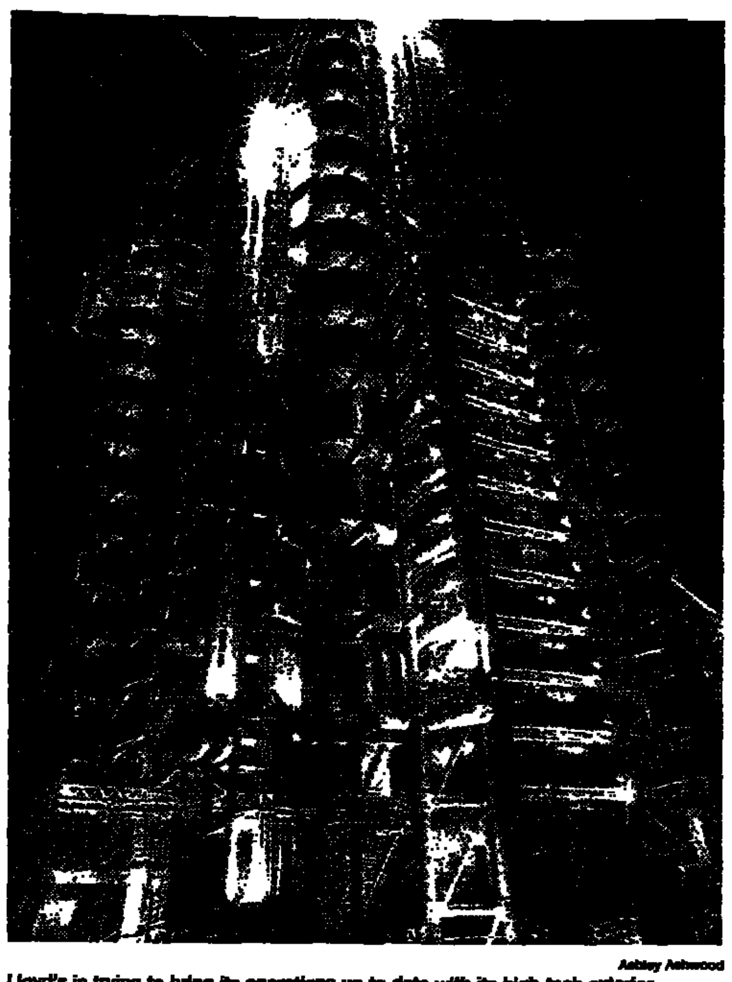
If the societies moved quickly into commercial lending they would risk picking up only those accounts the banks were happy to lose.

Longer term, however, Smith believes building societies might consider taking on the main lending banks, but only if there were first significant mergers of societies and if returns from lucrative mortgage lending showed signs of a long-term decline.

For the time being, it seems, companies seeking loans will be making appointments with high street bank managers and not their counterparts next door in the building society.

RG

TECHNOLOGY



Lloyd's is trying to bring its operations up to date with its high-tech exterior — Ashley Ashwood

All change at Lloyd's

The insurance market is about to embrace electronic processing, writes Vanessa Houlder

The high-tech appearance of the glass and steel building in London occupied by the Lloyd's insurance market has rarely been matched by the state of the technology used within it. Until 1990, for instance, Lloyd's was one of the world's largest users of punched cards, a near-obsolete form of data processing.

The punched cards, which it used to carry details of insurance risks, have now been dispensed with. But several other aspects of Lloyd's business systems still look old-fashioned. For example, nearly all risks at Lloyd's are placed in the traditional fashion by brokers clutching heavy leather folders of documents and walking from underwriter to underwriter.

The need to improve Lloyd's use of technology has been given a high priority as it attempts to pull itself back from the record-breaking losses of recent years. The importance placed on the new systems last month prompted Peter Middleton, chief executive, to ask each of the broking and underwriting firms to appoint a main board director to take responsibility for the changes.

Lloyd's plans to cut £20m of operating costs each year by a move to electronic processing and the streamlining of its business processes were announced in Lloyd's business plan last year. One of the most fundamental changes proposed by Lloyd's is the introduction of electronic placing support, which means that all contracts will have to be put on screen by January 1996.

The significance of the electronic contract is that it should create cost savings down the processing chain. These should flow from reduced paper handling, from the elimination of the need to re-key data and the associated cost of validating data and correcting errors.

At the same time, full electronic processing will also improve the centrally-held information for syndicates and managing agents. For instance, Lloyd's believes that more timely information on signed premium income will allow it to manage its capacity more effectively.

On the face of it, this move towards a paperless market has taken an inordinately long time. When the use of the electronic placing system becomes mandatory in 1996, it will be nearly 10 years after Big Bang swept away the need for face-to-face dealings on the stock exchange.

The slow pace of progress is blamed partly on the complexity of the business handled at Lloyd's and partly on the highly fragmented nature of the market, which means there are few big players with sufficient clout to force through changes. The need for consultation and consensus has restricted the pace of change.

Nonetheless, Lloyd's and the other players in the London insurance market have made some strides towards electronic processing. In the summer of 1987, underwriters and brokers from all sectors of the London market joined together to develop a market network – called the London Insurance Market Network (Limnet) which embraced electronic data exchange, interactive terminal switching, electronic mail, and various information services from Lloyd's and outside suppliers. Limnet is now the largest commercial insurance network in the world, handling some 25m transactions every year.

The most recent development in Lloyd's efforts to press ahead with new systems was the Lloyd's Outwards Reinsurance Scheme (Lors).

Since the beginning of December 1993, this has processed all outward reinsurance debit and credit notes electronically, thus scrapping the need for processing 1m pieces of paper a year and cutting the average cost of each transaction from £1.21 to 60p.

But the introduction of Lors did not go entirely smoothly. "The problem was that the staff needed training which was done in a haphazard way," says Janine Bailey of Lloyd's Business Applications Support. Instead of building up gradually to the deadline of December 1 1993 when the use of Lors became compulsory, too many firms had a last-minute rush to get familiar with the system.

Lloyd's wants to learn from its experience with Lors by gradually increasing the volume of business placed electronically until it becomes compulsory in January 1996. But progress so far has been halting. Since electronic placing was introduced in March 1992, there have been 3,000 risks placed on the system, equivalent to just 0.05 per cent of the total volume.

Lloyd's is adamant that the impending arrival of electronic processing should be taken seriously by the senior executives of the broking and underwriting firms, and not just by their IT specialists. The reason is that the impact of the new systems will go far beyond the IT department to affect the working lives of everyone in the business. "It is not a technological problem. It is a cultural problem about change in business practice," says Andy Coppell, Lloyd's systems and operations director.

It is not yet clear how radical the changes to business practice will be. It still remains to be seen how far the arrival of electronic processing will erode the practice of "face-to-face" negotiations and the personal relationships on which the market has been built.

So far, the consensus is that simple types of insurance such as personal accident policies will be placed electronically. But face-to-face negotiations will still be needed in the insurance of more complex risks, which involve copious amounts of information. "For anything with the slightest complication, there will still be a need for face to face," says Martin Hall, a broker.

But even if the new technology does not sweep away existing business practices completely, some of the consequences of introducing new technology may be painful.

The ironing out of inefficiencies will save costs, at the expense of jobs. It is no wonder that electronic processing is not viewed with enthusiasm by everyone.

Coppell acknowledges the problem. "You are asking people to embrace this technology knowing it will put them out of a job. It is a psychological barrier."

However, he believes that Lloyd's has no choice but to embrace the new technology. "If you don't modernise and become more cost effective, your volumes will come down. There is a bigger history of job reduction in industry by inefficiency rather than by successful application of technology."

Pan-European mobile telephones are becoming increasingly popular, reports **Joia Shillingford**

On the move, but still in touch

Are pan-European mobile telephones a business necessity or the ultimate executive toy? Whatever the answer, we shall soon be hearing more about them. James Ross, telecommunications analyst at Hoare Govett, says Vodafone will be promoting its EuroDigital service more heavily this summer and Cellnet has launched a rival service this month.

Friedman Wagner-Dobler, a computer consultant at Clasma Software, bought his Vodafone GSM telephone because "our marketplace is Europe, so it's useful to be contactable on the numerous occasions I escape to Sweden or Germany". GSM (Global System for Mobile) is a digital cellular technology which is becoming the standard for new European digital mobile telephone services.

British Nuclear Fuels bought a number of Cellnet GSM telephones from Securicor Cellular Services to comply with European regulations for the transportation of hazardous goods. It uses the telephones to keep in touch with trucks carrying fuel rods and to inform the authorities of the position of its vehicles.

The benefits are clear enough, but what are the choices if a telephone is needed that works on the Continent? In the UK, Vodafone and Cellnet offer GSM cellular services which can be used in continental Europe through so-called roaming agreements with national service providers. Although Cellnet's service is officially launched this month, it has been available for some time to customers who request it.

The two GSM services are separate from the analogue services offered by Vodafone and Cellnet. This means would-be users will have to buy expensive new handsets costing around £200-£500, whereas the analogue equivalent can be bought for as little as £50-£100.

However, because any GSM telephone will work with any GSM network, it is possible to shop around for telephones and even services, according to Peter Coates, marketing director of Multinational Automated Clearing House, a company which helps to simplify cross-charging between a number of European mobile telephone operators.

"Phone prices vary from country to country and you may pay different prices depending on whether you buy the phone with or without airtime," says Coates. Tariffs for services also vary. "Switzerland is one of the cheapest places to get GSM from, as is Sweden."

In addition to the GSM options, two UK mobile services, Mercury's One-2-One and Hutchison Microtel's Orange, are signing

Staying in contact across Europe

roaming agreements with other European operators whose services are also based on PCN (Personal Communications Network) digital technology, a variant of GSM. At present, there are few of these, but One-2-One and Orange users should eventually be able to use their telephones in Germany, where PCN operator E-Plus is offering services in Leipzig and Berlin.

Whatever service is chosen, a pan-European mobile telephone is unlikely to be cheap. This is not because registration charges or monthly subscription charges are particularly high; a Vodafone or Cellnet GSM user pays about the same for UK calls and for registration and subscription as a business customer of its analogue services. The reason is that the mark-up on calls between countries can be vast. Yet despite this, most customers feel they receive value for money when using their GSM telephones in Europe.

Would-be GSM users should be aware that if they receive a call when they are away from their home country, they must pay for the international leg of the call at BT rates. The caller pays the usual UK charge for dialling a cellular phone and may not even know the person being called is abroad.

Using the voice mail services provided by cellular operators can also prove expensive. Wagner-Dobler says: "If you use your phone in, say, Sweden, any unanswered calls will be redirected to Vodafone Recall [voice messaging]. The calls will first be bounced from the UK to Sweden and then bounced back to the UK and you will pay for both international calls."

One way of avoiding this expense, according to Vodafone, is to pre-program the telephone to "call forward unconditional" before leaving the UK. All calls will go straight to Vodafone Recall and can still be checked from Sweden or elsewhere.

GSM coverage in Europe is still patchy. Mike Caldwell, a Vodafone spokesman, says it is very good in Germany and Scandinavia, good in Italy and the UK and virtually non-existent in Spain. Service in France is limited.

Using an overseas GSM network is easy. Provided a credit-card sized Subscriber-Identity-Module Card (with built-in computer chip) is inserted into the telephone, it will select a local GSM network automatically. The local GSM network will also notify the home network where you are so it can transfer calls.

Call quality is better in some countries than others, and mountainous areas are particularly subject to difficulty.

Despite such teething problems, Wagner-Dobler is not alone when he says: "It's a miracle that this kind of thing works at all."

BUSINESS AND THE LAW

Ruling on Cypriot import certificates

EUROPEAN COURT

When citrus fruit and potatoes are imported from the part of Cyprus to the north of the United Nations buffer zone, member countries of the European Union are precluded from accepting movement and phyto-sanitary certificates issued by authorities other than the competent authorities of the Republic of Cyprus.

This was the European Court of Justice ruling on the interpretation of the 1972 EEC/Cyprus Association Agreement and a 1977 directive on plant health controls. The ruling was given in the context of English judicial review proceedings against the UK Ministry of Agriculture, Fisheries and Food by Republic of Cyprus fruit and potato exporters.

They challenged the UK authorities' practice of allowing imports into the UK accompanied by certificates issued by the Turkish community. Movement certificates prove goods' Cyprus origin, in particular for purposes of preferential treatment, and phyto-sanitary certificates guarantee plant health.

It was agreed by the parties that the Republic of Cyprus is a sovereign state, recognised by European Community member states; that the UK imports significant volumes of citrus products and potatoes from the part of Cyprus to the north of the UN buffer zone, accompanied by certificates issued by the Turkish community there; and that none of the certificates are issued by the authorities of the Republic of Cyprus.

The ECJ confirmed previous decisions establishing that the system whereby movement certificates are regarded as evidence of the origin of products is founded on the principle of mutual reliance and co-operation between the competent authorities of the exporting and importing states.

Such co-operation was excluded with the authorities of an entity such as that in the northern part of Cyprus, which is recognised neither by the Community nor by the member countries. The only Cypriot state they recognise is the Republic of Cyprus.

Accordingly, the ECJ held that the provisions must be interpreted strictly, to ensure uniform application of the agreement. "The customs authorities of the exporting state" must be interpreted as referring exclusively to the competent authorities of the Republic of Cyprus when exports to the EC are involved. The agreement, therefore, precluded acceptance of certificates from other authorities.

The Greek and Irish governments intervened in support of the applicants. The UK and the Commission, however, claimed that the special situation of Cyprus justified acceptance of certificates issued by the entity in the northern part of the island, in order to prevent discrimination between nationals or companies of Cyprus, so as to ensure the entire population of Cyprus enjoyed the commercial advantages available under the agreement.

The ECJ held that the *de facto* partition of the territory of Cyprus, as a result of the intervention of the Turkish armed forces in 1974, into one zone where the authorities of the Republic of Cyprus continue fully to exercise their powers and another zone where they cannot do so, raises problems difficult to resolve in connection with the application of the agreement to the whole of Cyprus. However, that did not warrant a departure from the clear, precise and unconditional provisions of the agreement's rules on the origin of products and administrative co-operation.

The Court also rejected arguments based on international law which the Commission claimed justified a practice which it was found to have unilaterally applied of distributing stamps and signatures used on unauthorised certificates. For similar reasons, the ECJ held that the term "authorities empowered" in the 1977 directive must be interpreted as referring exclusively to the authorities empowered by the Republic of Cyprus to issue phyto-sanitary certificates. The directive, therefore, precluded the acceptance of certificates issued by other authorities.

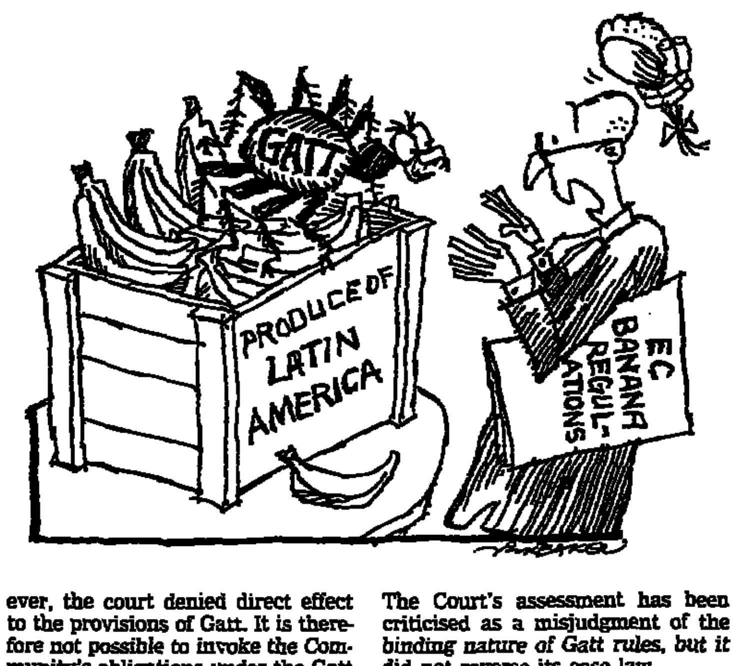
The ECJ also ruled that the answers would be no different even if certain circumstances connected with the special situation of the island of Cyprus were taken as established.

Case C-432/92, R v MAFF, ex parte S P Anastasiou and others. Interveners: Cypruvex; ECJ FC, July 5 1994.

BRICK COURT CHAMBERS, BRUSSELS

The trouble with bananas

Anton van Schijndel on the effect of Gatt rules on EC legal protection



Regulations on banana imports mean the European Community may be on the point of scrapping the enforceability of rules drawn up under the General Agreement on Tariffs and Trade.

In February last year, the EC Council adopted a regulation for the European banana market as part of the EC internal market programme. It is designed to protect banana cultivation in the EC and to maintain the existing level of banana imports from former colonies of France, the UK and Italy. Otherwise, imports of bananas from Central and South America are expected to gain an increasing share of the EC market.

The move caused several Latin American countries, which are exporters of bananas, to file complaints under the Gatt. A Gatt panel found that the regulation violates the Gatt's prohibition of import quotas and its prohibition of discrimination between Gatt members.

Shortly after the EC Council adopted the regulation, Germany challenged its validity in the European Court of Justice (ECJ) in Luxembourg. The Germans dislike the regulation's bureaucratic, Gosplan-like set-up and the higher prices it entails. One of the grounds which Germany invokes to invalidate the regulation is that it breaches Gatt rules.

Last month, however, in an opinion in the case, Claus Gulmann, advocate general at the ECJ, concluded that the regulation had been lawfully enacted.

His opinion will be a concern to those who believe the Community should not stray from its commitment to free trade. But more worrying is the way he deals with the issue of legal protection against illegal Community acts. The advocate general proposes to eliminate an entire class of EC legal rules as grounds for review by the ECJ. In large part, the EC's obligations under the Gatt are to be scrapped as grounds for review.

In the EC, the chances of legal action succeeding depend partly on the grounds which may be invoked before the courts. In this respect the "direct effect" of many rules of Community law helps EC citizens, by allowing them to rely on those rules in their own courts.

Moreover, the ECJ has ruled that international agreements entered into by the Community may also contain provisions with direct effect. This is because Article 228 of the Rome treaty provides that international agreements are binding on the Community's institutions and on its member states.

In EC law, the Gatt ranks on a par with such international agreements, even though the Community never formally acceded to the 1947 Gatt accord. In the 1972 International Fruit Company case, however, the court denied direct effect to the provisions of Gatt. It is therefore not possible to invoke the Community's obligations under the Gatt in national courts.

Yet, five years ago, the ECJ confirmed that Gatt rules constitute grounds for review in actions brought before it. As a result, EC secondary legislation (such as the Council's banana regulation) will be annulled if the Court finds it conflicts with Gatt obligations.

It is this rule of EC law which the advocate general wants to curtail.

His point of departure is the fact that the banana scheme is currently the subject of negotiations with several Latin American countries. It could therefore jeopardise the Community's chances to safeguard its interests if the ECJ invalidated the Council's regulation.

He then points to the reasons given in the International Fruit Company case for denying direct effect of Gatt rules. In the 1972 case, the ECJ referred to the flexibility of the Gatt system and to its basic principle of negotiations aimed at mutual exchange of advantages. In particular, the ECJ pointed to the many possibilities for derogations to Gatt rules, the provisions concerning unilateral safeguard measures and the Gatt's consensus-based dispute settlement system as examples of the Gatt's flexibility.

The Court's assessment has been criticised as a misjudgment of the binding nature of Gatt rules, but it did not reverse its case law.

The advocate general then says neither the Gatt's reciprocity principle nor its dispute settlement mechanism precludes Gatt rules from having legal effects under EC law. Moreover, he adds, notwithstanding the Gatt's flexibility, its rules may be sufficiently clear and unconditional to be applied by the European Court.

Then comes a change of direction. The advocate general says the reasons which preclude national courts from applying the Gatt also apply in actions brought before the ECJ, unless the disputed Community measure itself expressly refers to the Gatt.

In support of this argument, he quotes the 1989 Fediol and 1991 Nakajima cases. In these cases the ECJ recognised that Gatt rules constitute grounds for judicial review. They both concerned Community legislation in which explicit reference was made to particular Gatt rules – a fact the Court mentioned in both judgments. This leads the advocate general to conclude that only Community legislation which expressly refers to Gatt obligations may be reviewed in the light of Gatt rules.

It is very clear, however, that the banana regulation does not refer to the Gatt. In fact, it could never have done so, because it breaches pertinent Gatt rules.

The advocate general's reasoning is unconvincing. First, international agreements are part and parcel of the EC legal order, binding on all Community institutions, including the ECJ. Such is the wording of Article 228 (7) EC. Second, rules contained in international agreements thus form part of the law which the Court is charged to uphold. Third, both member states and private parties are entitled to invoke these rules in actions brought before the ECJ.

Yet Article 228 EC receives scant attention in the 16 pages of the opinion which deal with the Gatt. Instead, a strange new category of EC legal rules is introduced, namely those which can neither be enforced through the national courts nor through the European Court. This is highly unsatisfactory – especially when considering the existing imperfections in the EC system for legal protection. A decline in the level of protection would therefore be all the more undesirable.

The advocate general's reasoning seems to reflect a sense of unease about the potential consequences under EC law of the Uruguay Round's new Gatt rules. The new Gatt Codes provide for stringent disciplines in many areas, and include dispute settlement procedures which no longer allow the Community to block unwelcome Gatt dispute panel reports.

Yet some EC member states still believe that compliance with Gatt rules is a matter to be dealt with at diplomatic conferences only. They feel the Community would be "defenceless" against its trading partners if Gatt rules could be enforced through the ECJ. They therefore believe the internal effect of the Gatt rules should be limited within Community law.

One wonders, however, how this view could be squared with the pertinent provisions of the Rome treaty. Moreover, the trade diplomacy argument fails to appreciate the Community's overriding interest in a free and orderly trading system based on liberal principles.

Contrary to the advocate general's apparent belief, the enforceability of Gatt rules within the EC is an asset and not a weakness. It allows the EC institutions to withstand protectionist pressures, thereby strengthening the Community's position in pushing for further liberalisation of world trade. In this broader context, there are no reasons to ask the European Court to abdicate its powers of review under the Treaty of Rome.

The author is a member of the Amsterdam Bar

LEGAL BRIEFS

English and Brussels lawyers reach agreement

The Law Society of England and Wales and the French and Dutch-language Brussels Bars have reached agreement, after two years of negotiations, on the right of lawyers to practise under their home title in each other's jurisdictions.

English solicitors will be able to practise under their established firm names in Brussels from September 15 without registering on one of the Brussels Bars' lists of foreign lawyers.

Burst of energy

City solicitors Allen & Overy has been voted the leading law firm in international energy law in the 1994 energy finance poll, conducted by Petroleum Economist magazine. US firms Baker & Botts and Vinson & Elkins were ranked second and third, with the UK's Herbert Smith fourth.

Psychology help

A consultancy specialising in advice on the psychology of human resource management to the legal profession was launched last week by former City solicitor and psychologist Catherine Berney.

Berney, who worked in international finance at McCann Fitzgerald in Dublin and Linklaters & Paines in London, says many firms expanded in the late 1980s without any clear sense of direction and are now faced with communication, career development and related personnel issues, which they are ill-equipped to handle.

Personal skills are also not something which come naturally to most solicitors, she says, yet increasingly they are asked to be ambassadors for their firms without having received any presentational or communications skills training.

PEOPLE

Young promoted at Wolseley

The question of who will succeed Jeremy Lancaster, the chairman and managing director of Wolseley, the world's biggest distributor of heating and plumbing products, has found a partial answer in John Young's appointment as group deputy managing director.

Lancaster, 58, a publicity-shy figure who took over from his father, Norman Lancaster, in 1976, has transformed Droitwich-based Wolseley from a poorly-performing builders' merchants into one of Britain's most admired companies. In terms of its market capitalisation of £2.2bn, it is now over 50 per cent bigger than Tarmac which once tried to take it over in the 1970s.

Although Lancaster has not formally said when he intends to retire, it is widely believed that he may hand in his notice when he reaches 60, hence the growing interest in the succession. The assumption is that the company will recruit a non-executive chairman and a new chief executive will be promoted from within.

However, several of the obvious candidates are close to retirement. Richard Ireland, Wolseley's finance director who has also been standing in as non-executive chairman of Severn Trent, is expected to retire after the annual meeting later this year and William Ferris, chief executive of Wolseley's engineering, electrical and plastics operations, died in April.

In some respects Young, 49, comes from a similar background to Lancaster who did his apprenticeship at GKN before joining the family company in 1961.

Young trained as an apprentice at TI Group before joining Wolseley in 1978 when his family business of P.J. Parmiter was bought for £1.8m. He was promoted to the board in 1982 when he was made responsible for the agricultural division and subsequently became responsible for the photographic and technical services operations.

Young is the most senior of several new appointments to the Wolseley board. It has already been announced that Steve Webster, a partner in Price Waterhouse, is joining the board at the end of the month as deputy group finance director. Gerard Pinault, president directeur général, Brossette BTI, and Andrew Hutton, managing director Wolseley Centers, are also joining the board.

Burgmans to head southern Europe for Unilever

Antony Burgmans (right), Unilever's director of personal products, is about to swap the world of perfumes and toothpaste for that of ice creams and beverages.

On August 1, he takes up a new appointment on Unilever's Foods Executive as director for southern Europe, succeeding Charles Miller-Smith, just appointed chief executive of ICI. The three-strong executive oversees the smooth running of the group's foods businesses around the world, divided between north and south Europe and the US.

The appointment will take Burgmans, 47, back to his native Netherlands; Rotterdam will be the base for his travels around southern Europe.

Burgmans has been in charge of personal products business since he became a director of Unilever in May 1991. He is also responsible for Unilever's marketing projects group.

After studying business administration in the Netherlands and social and political sciences in Stockholm, Burgmans gained a degree in business administration at Lancaster University in north west England.

He joined Unilever in 1972 and his career has given him an opportunity of working in near and far-flung parts of the multinational's empire. He was marketing director of Lever Germany from 1985 to 1987 and then chairman of PT Unilever in Indonesia until 1991.

Burgmans will be succeeded in London by American-born Robert Phillips, 55, currently chairman of Unilever Prestige Personal Products. Phillips was president of Chesebrough-Pond's before joining Unilever in 1991. He is expected to be nominated to the board next May. If this happens, he will be the only American director, and only the second American ever to have sat on the Unilever board.

■ Peter Berridge is appointed group md of finance and administration, and Serge Crasnianski md manufacturing, R&D and sales, at PHOTO-ME INTERNATIONAL. Michel Moraine, Francois Giuntini and Jean Luc Peurois have been appointed directors of the French operation.

Harrods' new bank manager

The smart London district of Knightsbridge acquired a new bank manager yesterday. He is John Simmonds, who has just become director and general manager of Harrods Bank Ltd, which is situated in – but not owned by – the famous store.

Simmonds, 58, took early retirement from Lloyds Bank when it was going through a restructuring exercise in 1992. Since then he has been acting as a consultant for small businesses and others, including Lloyds, and has just been approached by Harrods. Having been an area director with Lloyds, he is looking forward to running all aspects of Harrods Bank – which has assets of almost £25m.

With just 3,500 customers, Simmonds sees his first task as establishing a relationship with the existing clients. Beyond that, he believes that there is a role for the bank in offering a personal service to young professionals who are not yet the high net worth individuals courted throughout the financial services sector.

"We don't want to be all things to all men," Simmonds says, "but one of the first priorities is to look at those who are one or two rungs up the ladder and believe they merit a more personal service than they are getting from the main clearing banks."

Bodies politic

Lady Brittan, the longest serving commissioner of the Equal Opportunities Commission, has been appointed its deputy chairwoman.

Lady Brittan has been a commissioner with the EOC since 1988 and her appointment as deputy chairwoman will run until the end of the year, when her second term of office as a commissioner comes to an end.

She is also chairwoman of Community Industry, a national training provider for young people and adults with special needs and is deputy chairwoman of the Human Fertilisation and Embryology Authority.

Peter Smith, general secretary of the association of teachers and lecturers, and Mary Berg, an independent consultant economist specialising in industrial economics, have been appointed commissioners.

■ Barry Skipper, former chief executive of the food distribution division of Booker, has been appointed chairman of the SEA FISH INDUSTRY AUTHORITY.
■ David Hobbs, chief executive of the Autobar Food Services Group, has been elected chairman of the AUTOMATIC VENDING ASSOCIATION OF BRITAIN.
■ Sir Colin Marshall, chairman of British Airways, has been appointed chairman of the International Advisory Board of the BRITISH-AMERICAN BUSINESS COUNCIL.
■ Bernd Pischetsrieder, chairman of BMW, has been appointed vice-president of The PRINCE OF WALES BUSINESS LEADERS FORUM.
■ David Croll, chairman of Millbrook Bedding and Millbrook Furnishing Industries, has been elected president of the NATIONAL BED FEDERATION.
■ Caroline Vaughan, chief executive of Newmarket Venture Capital, has been appointed deputy chairman of the HOME-GROWN CEREALS AUTHORITY.
■ Tom Glancy, md of B&G Ltd, has been appointed president of The CHARTERED INSTITUTE OF MANAGEMENT ACCOUNTANTS.
■ Philip Sellers, chairman of Pegasus Software, CFM, and Inner City Enterprises, has been appointed a member if the board of the LONDON FESTIVAL ORCHESTRA.

Heroic years of American painting

William Packer reviews the work of Franz Kline

So often it is by the smaller things – the shift of emphasis, the pattern recognised only at a distance – that we learn revolution is achieved. We may believe, for example, that painting and drawing are under siege, that the orthodoxies of conceptualism run triumphant in the halls of Tate and Hayward and the Councils of the wise. Indeed much of the current art-critical debate is set on just this premise of embattled truth.

Yet suddenly we look about us and painting – good, solid, modern painting – is everywhere. From Bonnard to assorted Brits, the Tate, Hayward, the Serpentine and now the Whitechapel are full of the stuff.

Franz Kline could hardly be shown to greater advantage than at the Whitechapel, with its high, open spaces and gentle light, where indeed we last had a proper view of him all of 30 years ago. The group of large, deceptively simple canvases with which the show begins, black abstract figures on white grounds, is spectacular. Here at once we confront a true artist in his pomp. It is an exciting moment.

Kline was one of the leading figures of the New York School of painters of the 1940s and '50s, that we know collectively as the abstract expressionists. Such artists as Pollock, Rothko and de Kooning were his friends and, if he was not the greatest, he was certainly, in his time, the equal of any of them. But his fate was to die of a heart attack in 1962, a little short of his 52nd birthday, at just the time when the painting of which he was so conspicuous a champion was sweeping the world at last.

It was no longer, then, a question of whether, as an artist, you were figurative or abstract, let alone modernist or academic. For a brief art-historical moment it was enough to be American and from New York. There were the abstract expressionists, and there were the rest.

The pre-eminence that American criticism claimed for the abstract expressionists seemed to work against Kline simply by the accident of his no longer being there to enjoy, or perhaps be exploited, in the words of his present apologist, Stephen Foster: "by the commercialisation of the *avant garde*." He was neither the hero dead too soon – Pollock, Gottlieb – nor yet another "greatest living painter" – de Kooning, Rothko, etc. Now revisionist criticism, it seems, is trying to detach him from his peers and claim him as a radical traditionalist all along – one who attempted "to reject the entire modernist legacy". That too would seem another doubtful favour.

The paintings are monumental in their authority, extremely moving in their emotional charge, and very beautiful

"Art and the Structure of Identity" is the exhibition's sub-title, which shows what we are up against. "I here understand Kline," says Professor Foster, "as one of the last in a long 20th century history of anti-modernist statements. He lays claim to our serious attention because of his successful transaction of a period without modernism's clear critical, theoretical, aesthetic or historical guidelines and without its inevitability, tradition, or aesthetic directionality."

What we are actually left with, once the critical heroics fall away, are paintings, monumental in their authority, extremely moving in their emotional charge, and very beautiful. The show covers the last 15 years of Kline's life, and shows us the steady and natural development of his work in that time, as it moved from the external, albeit abstracted visual reference, fraught with surreal and symbolic suggestion, towards something much purer, more simple and self-contained.

This was a journey Kline took along with his fellows, arguing vociferously the while. From our vantage point it is clear that the truly heroic years in modern American painting were the 1940s, when this course was being charted, rather than later, when achievement became fixed as style and mannerism.

But with Kline this later fixing never quite happened. Always there remained the implicit possibility change and surprise, even in the later, seemingly more formulaic works. The image, the calligraphic figure is a loosely-stated structure or compositional scaffold, laid on with great sweeping strokes of the broadest of brushes. The paint is vigorous and spontaneous in the act of painting, various in consistency and surface, and over-painted again and again, to leave the history of the making half-visible in hints of colour here, and changes of direction there.

"I don't decide in advance that I am going to paint a definite experience," he said, "but in the act of painting, it becomes a genuine experience for me." It is as simple, and as imponderable, as that.

Franz Kline: Whitechapel Art Gallery, Whitechapel High Street E1, until September 11, then on to Madrid and Saarbrucken. organised by the Tapies Foundation, Barcelona; sponsored by Morgan Stanley.

Vigorous and spontaneous in the act of painting: 'Palladio' by Franz Kline (1961)

Theatre

Dangerous Corner

J.B. Priestley was born a hundred years ago this year, and the West End run of last year's National Theatre production of *An Inspector Calls* continues. You would think that these two facts would prompt a slew of other Priestley revivals. But no. Chichester, which has just revived his first play, the seldom-seen thriller *Dangerous Corner*, is almost alone in honouring JBP. Strange.

The fun of watching *Dangerous Corner* for the first time is its suspense. About once every five minutes, Priestley springs another brilliant surprise on you. 1: Who went to see Martin the night he committed suicide? 2: Who else went to see him that night? 3: Was it really Martin who stole the firm's money? 4: Who was in love with Martin? 5: Who else was in love with Martin? 6: Who actually shot Martin? 6: Why was Martin shot? 7: Who was taking drugs at the time? 8: Who knew who killed Martin? 9: What did the killer see after shooting Martin? And there are a few other twists, most of which reveal who else around the room has actually always been in love with whom. Then the two big twists at the end. Not a dull moment.

This production is, for Chichester, a sequel to last year's staging of Patrick Hamilton's *Rope*. Priestley was one of the earliest admirers of the original *Rope*; last year's *Rope* (which recently had a short-lived West End transfer) and this year's *Dangerous Corner* share the same director, Keith Baxter. The pacing is good, and the period style tolerable. The first half-hour has considerably too much restless musical-chairs moving around the stage – I missed one of Freda's main revelations because I got distracted by the posey glide she was making across the room – and a photograph in the programme shows you that the 1938 production created a more authentically lived-in drawing-room than Simon Higlett's model interior-design set.

Freda (hostess to the evening's dinner-party, wife to Robert, and sister-in-law to the late Martin) is Gayle Hunnicutt, every aspect of whose glamour and deportment is so synthetic that it is hard to believe in her, though this leads to a good moment when her poised facade cracks and she sobs for the first time. Peter McEnery is Robert – slightly underpowered but expertly focused. Emily Raymond, as the level-headed and well-mannered Olwyn, gives a much more arresting performance than she did across the road in *The Rivals*.

Charles Stanton (one of Robert's co-directors in the firm and in love with *****) is played, perhaps too affably but with just the right assurance, by Christopher Timothy. Betty, a young wife who turns out to be that bit more experienced than we knew, is played, well, by Biddy Hodson. Her husband Gordon (Freda's brother and a co-director in the firm) is Tristan Gemmill, who gives the evening's finest performance, with a good flair for both period elegance and neurotic disturbance. Oh yes – and Jean Boht contributes a little cameo performance as the drawling Miss Mockridge, which she delivers with enough panache to make you surprised that her role turns out to be the smallest.

Alastair Macaulay

In repertory at the Minerva Theatre, Chichester, until August 6.

Alastair Muir

A riveting anti-hero: Gilles Cachemaille as Giovanni

Opera/David Murray

A volatile Don Giovanni

Glyndebourne's new Giovanni, Gilles Cachemaille, never stops stripping. No sooner has he donned one shirt than he yanks it off to be replaced by another which Leporello hands him, or else he struts bare-chested for a while. That suggests that he is perpetually hot, and also that he wants to show it (perhaps that is part of his technique): hot for it, hotter than hell. This last presumptive claim is wrong, as proved by the designer Hildegard Bechtler's final vision of hell as a monstrous, flaming grill-room.

That is the only "realistic" set in Deborah Warner's production – and of course it is *not* realistic. Otherwise there is just a moveable platform (lowered ever so slowly from the flies onto a pit during the Overture), a high industrial tunnel, a tacky plastic curtain and the occasional staircase. Miss Warner has chosen to stake everything on character and visible action (and Mozart's music, which she leaves intact) while shunning anything picturesque.

No palaces, meadows or ballrooms, let alone an equestrian statue; nothing "period" that might fix the social status of the characters, though Sue Blane's choice of modern gear for them conveys many a sly hint. Many of the Glyndebourne audience loved it (as did I), probably most; some booed. Of the latter, some were no doubt traditionalists who pined for the usual trappings, but others – especially those new to the opera – were foxed, perhaps, by this parade of passions anchored in no solid reality. Knowing more about the opera than Miss Warner wants to show us may be a prerequisite for relishing what she actually does with it.

Anything from the pit dwindled against what we heard and saw from the singers; Miss Warner has wrenched terrifically vivid character from most of them

Simon Rattle conducts the Orchestra of the Age of Enlightenment with his usual towering vitality. I was less struck by any special period-instrument colours, perhaps because they have become familiar now, than by how faint some of the witty string-comments sounded. But anything from the pit dwindled against what we heard and saw from the singers; Miss Warner has wrenched terrifically vivid character from most of them (slow though they are with recitatives). Even glum, passive Don Ottavio is at least made *vividly* glum and passive, and beautifully sung, by John Mark Ainsley.

Amanda Roocroft's Donna Elvira is wrong-footed by her first appearance, as a pretty waif travelling with plastic water-bottle and shopping-bag, but she restores the lady's essential dignity in her music later. Hillevi Martinpelto sings Donna Anna with elegance, if without much sense of tragedy beyond melodrama. Juliane Banse's Zerlina, sweetly knowing, throws Roberto Scaltriti's seething Masetto (perfectly defined by his flash suit) into still better relief; they are a splendid pair, with unending explosions clearly indicated for their wedded life post-opera.

Though I am not convinced that a live, dinner-jacketted Commendatore can carry the full dramatic weight of a stone statue, Gudjon Oskarsson sings him with measured aplomb. As Leporello, Sanford Sylvan – the memorable Chou en-Lai of John Adams' *Nixon in China* – is a ripe model of seen-it-all weariness, full of comic touches, and delivered with a quick musical alertness rare in Leporellos. Above all, however, it is Cachemaille's riveting anti-hero who carries the show, and the evening.

As if hellbent to prove that he is *not* just one of Nature's Leporellos (Cachemaille's usual role in the opera), he displays a range of vocal variety and feeling that leaves most Giovannis standing, even to unexpectedly seductive, honeyed tones for "La ci darem" and the Serenade. Writers sometimes suggest that Don Giovanni is really a failed seducer, on the strength of his failed seductions in the opera; the manic, *acharné* lust with which Cachemaille invests him gives the lie to that utterly.

Beyond it there is a mad, dangerous volatility, a constant threat that he may do *anything* next, just for the hell of it. There is something absolutely right about that. From now on, Giovannis who lack it, whatever their other virtues, are going to seem a little pallid – decorous persons impersonating a seriously wild man.

In repertory at Glyndebourne until August 24.

INTERNATIONAL

ARTS GUIDE

■ AMSTERDAM

Concertgebouw Tonight: Richard Tognetti conducts Australian Chamber Orchestra in works by Biber, Vivaldi, Haydn and Walton, with guitar soloist John Williams. Tomorrow: José van Dam song recital. Thurs: Ton Koopman directs Amsterdam Baroque Ensemble in Purcell, Telemann and Bach. Fri, Sat, Sun: Frans Brüggen conducts Radio Chamber Orchestra in three different programmes of Mozart and Haydn, with piano soloist Imogen Cooper (Fri and Sat), soprano Lynne Dawson (Sat) and string soloists (Sun). Mon: Vladimir Spivakov directs Moscow Virtuosi (020-671 8345)

■ ATHENS

ATHENS FESTIVAL
Heinrich Schiff conducts Athens State Orchestra and Berlin Radio Chorus tomorrow and Thurs at Odeon of Herodes Atticus in extracts from Beethoven's Fidelio, with cast headed by Ellen Shade, Josef Protschka and Kurt Rydl. Gerhard Oppitz gives a Beethoven piano recital on Sat
(Athens Festival box office, 4 Stadiou Street, in the arcade. Tel 01-322 1459/01-322 3111. Open Mon-Sat 8.30-14.00 and 17.00-19.00, and Sun 10.30-13.00)

EPIDAURUS FESTIVAL
The annual festival of ancient drama in the 1,400-seat amphitheatre at Epidaurus hosts performances of Greek classical drama on most weekends throughout the summer. National Theatre of Greece presents Aristophanes' Clouds this weekend, followed by Euripides' Hecuba on July 23 and 24. Peter Stein brings his marathon Moscow production of The Oresteia on July 30 and 31. Tickets are available daily at the Athens Festival box office (01-322 1459) or at the theatre of Epidaurus on Fri, Sat and Sun (0753-22006)

■ CHICAGO

RAVINIA FESTIVAL
Tokyo String Quartet plays quartets by Bartok, Berg and Beethoven tonight and Thurs. Semyon Bychkov conducts the Chicago Symphony Orchestra on Fri, Sat and Sun in three programmes, including Rakhmaninov's Second Symphony (Fri), Shostakovich's First Violin Concerto (with Vadim Repin on Sat) and Beethoven's Fourth Piano Concerto (with Alicia de Larrocha on Sun). Next Mon: Tom Jones. The festival runs till August 28. Ravinia is situated in Highland Park, within easy reach of downtown Chicago by train, bus or car. To order tickets by phone, call 312-ravinia. Outside the metropolitan Chicago area, call 1-800-433-8819. Tickets can be ordered by fax 24 hours a day: 708-433 4582.

■ LONDON

THEATRE

- She Loves Me: West End transfer for Scott Ellis' Broadway revival of the 1963 Masteroff, Bock and Harnick musical. Opens tonight (Savoy 071-930 8800)
- The Country Wife: Jeremy Northam heads the cast in this RSC production of William Wycherley's Restoration comedy, directed by Max Stafford-Clark. Opens tonight (The Pit 071-836 8891)
- The Tempest: Alec McCowen heads the cast in Sam Mendes' RSC production. Opens tomorrow (Barbican 071-836 8891)
- The Canterbury Tales: Brian Glover stars in Michael Bogdanov's modern adaptation of Chaucer's bawdy tales. Now previewing, opens on Thurs (Garrick 071-494 5085)
- The Seagull: Judi Dench plays Arkadina in Pam Gems' new version of Chekhov's play about disappointed aspirations. John Caird directs. Just opened (National 071-928 2252)
- The Cryptogram: David Mamet's new play about the relationship between a woman, her child and a male visitor. Eddie Izzard and Lindsay Duncan head the cast (Ambassadors 071-836 6111)
- Home: Paul Eddington and Richard Briers in a revival of David Storey's 1970 play (Wyndham's 071-369 1736)
- The Queen and I: Pam Ferris plays the Queen in Sue Townsend's stage version of her bestselling novel, which places the Royal Family on a housing estate (Royal Court 071-730 1745)
- Hamlet: the youthful Damian Lewis heads the cast in this Regent's Park production directed by Tim Piggott-Smith. In repertory with A Midsummer Night's Dream (Open Air 071-486 2431)
- Dead Funny: Terry Johnson's hilarious, rude and emotionally shattering play about dead comedians, sex therapy and childlessness. Zoe Wanamaker heads an excellent cast (Vaudeville 071-836 9987)

MUSIC/DANCE
Covent Garden The Royal Opera has Aida with Nina Rautio and Michael Sylvester (till July 22), Manon conducted by Colin Davis, with cast headed by Leontina Vaduva and Giuseppe Sabbatini (till July 21), and La fanciulla del West with Gwyneth Jones, Nicola Martinucci and Justino Diaz (till July 23). The Royal Ballet returns on July 27 (071-240 1066)
Royal Festival Hall This week and next are devoted to the JVC Jazz Parade. Tonight: Natalie Cole. Thurs, Fri: Al Jarreau. Sat: Wynton Marsalis Octet. Sun: Dee Dee Bridgewater and Joe Henderson Quartet. Next Mon: Nina Simone, Jimmy Griff and Hank Crawford Quartet (071-928 8800)

THE PROMS
The 100th season of Henry Wood Promenade Concerts opens at the Royal Albert Hall on Fri with Schoenberg's Gurrelieder conducted by Andrew Davis. Saturday's concert is a recreation of the Prom programme of September 6 1900. Michael Tilson Thomas conducts the LSO in Berlioz, Tchaikovsky, Ives and Copland on Sun, with piano soloist Barry Douglas. Andrew Davis conducts the BBCSO and Chorus in British music next Mon. The season runs till Sep 10 (071-589 8212)

■ MADRID

Teatro Lirico La Zarzuela Sat: first night of Rossini's L'Italiana in Algeri, conducted by Alberto Zedda and staged by Pier Luigi Pizzi, with cast headed by Teresa Berganza and Ruggero Raimondi. Repeated July 18, 21, 23, 25 (01-429 8225)

■ MILAN

Teatro alla Scala Tonight: final performance of the Strehler production of Entführung, conducted by Wolfgang Sawallisch. Tomorrow, Thurs, Fri, Sat: Natalia Makarova's production of La Bayadère. Next Tues: first of five performances of John Cranko's ballet Onegin (02-7200 3744)

■ ROME

Museo degli strumenti musicali Tonight: Bill T. Jones/Arnie Zane Dance Company. Thurs, Fri: Groupe Emile Dubois in choreographies by Jean Claude Gallotta. Next week: Angelin Preljocaj and Paris Opera Ballet (tickets 06-361 2682/06-372 0216/06-291 0335 information 06-4890 4029)
Villa Medici Tonight: cello recital by Anne Gastinel. Tomorrow: piano recital by Roger Muraro. Next Mon (Palazzo Farnese): Roberto Cominati piano recital (06-361 2682/06-372 0216/06-291 0335)

■ STOCKHOLM

Drottningholm Tonight, Thurs: Nicholas McGegan conducts final performances of Ivo Cramer's production of Handel's Orlando Paladino. July 22, 25, 27, Aug 5, 7: Handel compilation starring Anne Sofie von Otter and Barbara Bonney. The season runs till Sep 10 (08-660 8225)

■ TURIN

Teatro Regio An international dance festival runs till July 24. This week's guest ensemble is the Frankfurt Ballet, with three choreographies by William Forsythe (011-881 5214)

■ WASHINGTON

- The main summer show at the Kennedy Center is Miss Saigon, the musical love story set during the Vietnam war. Daily except Mon (202-467 4600)
- Alan Ayckbourn's farce A Small Family Business opens tonight at Olney Theater. Till Aug 7 (301-924 3400)
- This week's programme at Wolf Trap features the National Symphony Orchestra in a Viennese night on Fri and an Italian night on Sat, with soprano Alessandra Marc and the Oratorio Society of Washington. The Four Tops and The Temptations head the bill on Sun and Mon (703-255 1860)

ARTS GUIDE

Monday: Performing arts guide city by city.
Tuesday: Performing arts guide city by city.
Wednesday: Festivals guide.
Thursday: Festivals guide.
Friday: Exhibitions Guide.

European Cable and Satellite Business TV

(Central European Time)

MONDAY TO FRIDAY
NBC/Super Channel: FT Business Today 1330; FT Business Tonight 1730, 2230

MONDAY
NBC/Super Channel: FT Reports 1230.

TUESDAY
Euronews: FT Reports 0745, 1315, 1545, 1815, 2345

WEDNESDAY
NBC/Super Channel: FT Reports 1230

FRIDAY
NBC/Super Channel: FT Reports 1230
Sky News: FT Reports 0230, 2030

SUNDAY
NBC/Super Channel: FT Reports 2230
Sky News: FT Reports 0430, 1730;

With strings attached

Does the independence of UK auditors require greater protection, asks **Andrew Jack**

What is the difference between an auditor and an airport luggage trolley?" asks Sir David Tweedie, chairman of the Accounting Standards Board, the body which decides how financial information is presented in the UK. "The trolley has a mind of its own."

The jibe does not endear him to many of his colleagues. But their sensitivity illustrates a nagging problem facing the profession: is the independence of auditors being compromised by the commercial relationship they have with the executive managers on whom they report?

The debate has rumbled for many years but today the Auditing Practices Board, which sets auditing standards, moves a step closer to proposing changes to the way in which the profession works that could protect the independence of the accountants. It is to discuss a series of proposals for reform, expected to be published later this year.

"It is the tension in auditing," says Mr David Hatherly, professor of accounting at Edinburgh University and a member of the board, who presented a paper suggesting radical measures for enhancing auditors' independence to the European Accounting Association in Venice earlier this year.

At the heart of the debate is an auditor's legal duty to give shareholders an assurance that a company's accounts present "a true and fair view" of its financial position each year. The possibility of a conflict of interest arises because auditors normally report to, and are paid, hired and fired by, the company's directors.

Management often has an interest in presenting financial information in a way that differs from the insight into corporate performance desired by shareholders.

Two years ago a "green paper" by the Auditing Practices Board, which led to today's discussion, noted that auditors often referred mistakenly to executive management, rather than shareholders, as "the client".

Increasing the pressure for some kind of reform in the past few years has been the failure of a number of fraudulent companies which had their accounts approved as "true and fair" without qualification by the auditors. Examples include Polly Peck International, Maxwell Communication Corporation, and the Bank of Credit and Commerce International.

Other companies have had their accounts approved by auditors only for the Financial Reporting Review Panel, which enforces accounting standards, to order amendments because of breaches of the rules. In the past three years, almost 20 companies have been forced by the panel to restate their accounts.

Auditors admit privately to sometimes stretching accounting standards to the limit to further the interests of directors without breaking formal obligations to shareholders. Many auditors "approve things that just about cross the line [into acceptability] but do not serve the shareholder," says Prof Hatherly of Edinburgh University.

The pressure auditors face is that if they refuse to bend to the wishes of a company's management, they may lose their contract. The process can be subtle. The directors will rarely fire the auditor. Rather, Sir David says, they will suggest that the firm's costs are too high and the audit should be put out to tender. The incumbent firm rarely wins.

One senior accountant says: "Some of my colleagues scratch their heads, suck their pencils and look at the audit fees." A partner in a large accountancy firm mentions the name of a large, well-known organisation and says: "If I lost it as a client, I would have to consider my future with the partnership."

As competition between accountants has intensified, fears of upsetting companies have risen. "I think in the 1980s commercialism really almost overtook professionalism," says Sir David. "The sheer competition outweighed judgment. Auditors would approve accounts that were acceptable rather than right."

Many accountants argue the climate has now changed. In the 1980s auditors often found that companies were prepared to bring in lawyers to exploit to the full loopholes in the professional standards. Mr Ian Plaistowe, chairman of the Auditing Practices Board and senior partner with accountants Arthur Andersen, says: "It was much more difficult in the 1980s to resist pressure. There were no yardsticks, accounting standards were looser, and lawyers were not doing us any favours."

Now, Mr Plaistowe argues, standards have been tightened and the setting up of the Financial Reporting Review Panel in 1991 has strengthened the hand of the auditors.

Furthermore, he says, while auditors' independence will always create tensions, his firm has never allowed pressure from directors to jeopardise its objectivity.

Like many accountancy firms, Arthur Andersen brings in other partners, not directly involved in the audit, to adjudicate when a company proposes contentious accounting techniques.

Nevertheless the Auditing Practices Board believes that the potential for conflict remains serious enough to warrant a thorough review. One radical suggestion to be discussed today is the creation of a government – or Stock Exchange – controlled audit commission which would be responsible for the annual appointment and remuneration of auditors to all companies. But even strong critics of the current system, such as Prof Hatherly believe this idea would create a remote, impractical and bureaucratic system. He suggests instead a "shareholder panel" selected from among a company's investors, to which auditors would be directly accountable. The panel might also be responsible for the selection and payment of auditors.

Prof Hatherly is unlikely to win a majority for his proposals at today's meeting. Instead the Auditing Practices Board is expected, in its report later this year, to call for a strengthening of the role of independent, non-executive directors in supervising auditors. It is likely to press for a greater role for audit committees of non-executive directors, already recommended as "best practice" for companies, suggesting these committees should be responsible for appointing and paying auditors as well as receiving the auditor's report.

Prof Hatherly, however, says that establishing a direct link between auditors and shareholders through a shareholder panel is the only real long-term solution if the interests of investors are to be paramount. "I feel that if something is conceptually wrong you can patch it up but in time the cracks show again."

Joe Rogaly

Hosing us for all we've got

Water privatisation is a rip-off, a steal, a plunder, legalised mugging, piracy, licensed theft, a diabolical liberty, a huge scam, a cheat, a snatch, a grab, a swindle. You already knew that, of course, as did I. We may even have found a few of the ducats falling in our own direction, taking one thing with another. What is fresh, and the cause of a sense of annoyance I find hard to suppress, is the evidence in yesterday's report from the National Consumer Council. We are talking, the council reminds us, not of 10 large and 21 small private companies struggling to scratch a living in a competitive market, but of an industry that is a "monopoly supplier of an essential service to a captive market". What else would it be but a huge machine for taking money out of customers' pockets?

The late Nicholas Ridley, the minister principally responsible for this outrage, told me his game plan in advance of its announcement. The pipes and sewers had been allowed to rot, he explained. Worse, the environmental movement wanted purer water. "It would be cheaper to deliver free Perrier to every house in the land," he said. No Treasury, under any government, had found or would ever find the necessary capital. Besides, water charges were linked to the rates, which he was abolishing in favour of the poll tax. Private companies could raise capital in the markets. They would be more efficient. That would release further funds. There would be a modernisation charge, but it would be manageable.

If you believe the consumer council, these forecasts were wrong. As to raising money in the markets, the overall gearing of the water businesses rose from virtually zero in 1989-90 to 24 per cent in 1992-93, the last year for which full accounts were available. To be fair, the companies are about to borrow a great deal more. Against that, no significant capital has been raised through equity issues. That could be expensive, but only while the industry insists on paying out many times its honest worth. Apart from the near-tripling of its share valuation, gross dividends rose by 63 per cent a year on average between 1989-90 and 1992-93. Yet these should be low-risk investments, comparable to index-linked gilts. As to efficiency, operating costs per unit of water delivered rose by 9.7 per cent between 1990-91 and 1992-93. The equivalent figure for sewage was 16.5 per cent.

A sensible Conservative government would pre-empt a Labour campaign, and admit that it fumble-fingered water privatisation

That leaves the modernisation fees, the ones you and I pay. Far from being manageable, the consumer council finds them incomprehensible. The companies are masters of financial disguise. The opacity of their accounting practices varies, but little daylight gets through. The consumers' council has to make best guesses. It questions transfers between budgets for continuing maintenance and the costs of construction of genuine new assets, not to mention cross-subsidisation of non-core businesses. In language we can all understand, the water gang has exaggerated its forecast bill for modernisation, spent less rapidly than it said it would, gambled and lost on out-of-industry ventures, and (although the consumer council does not say this) paid its directors handsomely for their non-service. These caporegimes, some of them unemployable in competitive industry, have awarded themselves large slices of the protection money they extract from us.

And do we pay! "Of all the privatised utilities, domestic water and sewerage bills have shot up the most since privatisation – by 67 per cent on average between 1989-90 and 1994-95," the council observes. Using a variety of assumptions, it intimates that the bulk of the money has been distributed in dividends. It notes that "... the 69 per cent contribution by consumers towards additional capital expenditure looks extremely generous", which is a kind way of putting it, since the renovation and environmental expenditure story, while clearly true, has plainly been exaggerated in a bogus effort to excuse the monopolists' voracity.

Genuine hardship is inflicted on the poor. Income support does not account directly for water bills. A notional, demonstrably inadequate, amount is included in the overall payment. It may be unreasonable to ask the water companies to bear this burden, but the pre-1988 practice, of taxpayers reimbursing all or part of the actual water bill along with the rates and the rent, is the only civilised alternative to a cap on charges. Tory policies have made the poor worse off, in some cases absolutely as well as relatively. Making water high-cost for low-income households is indecent.

The industry regulator, Ofwat, must not allow itself to be deceived. Its director general, Mr Ian Byatt, has to show he can be tougher than the initial Ridley formula. It will be difficult, given his terms of reference. He has to allow for a reasonable rate of return. Few private companies enjoy such a guarantee. I would adore a portfolio of stocks backed by the Ridley-inspired promise. It permits all sorts of jiggery-pokery to be inflicted upon the accounting process. The regulator should be called Ofrip. We shall see how well Mr Byatt has learnt this lesson when he publishes his price decisions on July 28.

Meanwhile, the voters are being roused to take their revenge, as they did over the poll tax. There has been a large swing to the Liberal Democrats in the south-west, where water charges have risen most rapidly. Northern electorates are already aware of the political significance of water imposts. Labour's spokesman, Mr Chris Smith, is a moderate who would not dream of advocating renationalisation. He speaks, rather, of toughening the regulatory regime, encouraging the companies to borrow long term, challenging charges to consumers, and reducing the growth in dividends. Labour even favours "efficiency", which means fewer jobs, preferably through natural wastage.

A sensible Conservative government would pre-empt such a campaign, and admit that it fumble-fingered water privatisation. The Tories must get it right, or Labour will. This does not constitute an argument for renationalisation. State monopolies are thoroughly discredited. We know their faults. But when you turn to private monopolists to do a job, you regulate them with chains, and where necessary beat them with rods, lash them, kick them and confine them. Do all of that, or they will take you for everything you've got.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL
Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. *Please set fax for finest resolution*

Not quite so powerful

From Ms Clare Spottiswoode.

Sir, I fear that your report, "Gas regulator may act to widen competition" (July 9,10) credits me with more power than I actually have.

To say I will use my powers to introduce wider competition "... if the government fails to put forward legislation..." overlooks the fact that such a move would require a statutory instrument by the secretary of state for trade and industry which would have to be made before parliament and is subject to standard parliamentary procedures.

Clare Spottiswoode,
director general,
Office of Gas Supply,
Stockley House,
130 Wilton Road,
London SW1V 1LQ

One for the road to healthy living

From Mr Peter Mitchell.

Sir, Dabbling in futurology is clearly a hazard to journalistic objectivity. Michael Prowse's speculations on lifestyles 50 years hence are interesting ("Why vegetarians will inherit the earth", July 11), until he touches on alcohol and its future. Then his crystal ball disintegrates due to an overload of errors and half truths from today's world.

The litany of social woes Mr Prowse seeks to attribute to alcohol reads like an extract from a Band of Hope pamphlet. His opinions conveniently ignore some rather important facts. First, 95 per cent or more of those who drink do so without harm and are far removed from the problems of excess, which affect only a small, unhappy minority – but who colour Mr Prowse's thinking.

Second, estimates of the social cost of abuse, on which he places much emphasis, are notoriously unreliable – even when produced by the US government. They vary from as little as 10 per cent of the $100bn quoted to up to 40 per cent more. Questioning commentators might be a little more cautious about statistical reliability when they see divergences as wide as this.

Mr Prowse is right on one point. In the US heart disease is the leading cause of death. In which regard a better predictor of why alcohol will still be a part of healthy lifestyles in 2044 can be found in a recent pronouncement from the World Health Organisation, assessing alcohol and health. "It can be concluded, therefore, that moderate drinking provides a moderate protective effect against cardiovascular disease, as compared with abstention and heavy drinking." Perhaps Mr Prowse should think again about giving up at least one of his fleeting pleasures. A little of what he fancies should do him good. No less than the WHO says so.

Peter Mitchell,
strategic affairs director,
Guinness,
39 Portman Square,
London W1H 9HB

Brand value

From Mr Enrico Sola.

Sir, Your story referring to the negative worth of some of the world's leading brand names ("IBM plunges to bottom of brand name value league", July 11) is misleading as regards Del Monte. The company referred to in the article is Del Monte Corporation in the US. Del Monte Foods International, based in the UK, is completely independent from the US company. Since 1992, the Del Monte brand name in the UK, Europe, Middle East and Africa has been licensed to the Del Monte Royal Group of Companies listed on the Johannesburg Stock Exchange.

Enrico Sola,
president and chief operating officer,
Del Monte Foods International,
Del Monte House,
London Road,
Staines, Middx TW18 4JD

Bleakness of US economy overstated

From Mr Avinash Persaud.

Sir, In "Three cheers for a weak dollar" (July 6), Wynne Godley and William Milberg fall into the trap of heralding economic disaster through the extrapolation of some unpleasant trends in the US trade deficit. In practice, economic disasters are much flagged but seldom arrive as alarming trends turn into cycles. This will be the case in the outlook for US trade.

Godley and Milberg argue that world output would have to rise 1.5 times as fast as US output for the trade deficit to remain a constant share of gross domestic product, and they intimate that this is unlikely. They conclude that far from being resisted, a gentle dollar slide now is preferable to the vertical drop that would follow if rising external deficits led to a loss of investor confidence in US assets.

But the reality is far less bleak. The pattern of US exports is shifting in favour of Latin America and east Asia, regions where economic growth outstrips that in the US, not by 1.5, but by an order of 2 to 3 times. In 1990, only 27 per cent of US trade went to these two regions, but just three years later, in 1993, this had risen to 35.6 per cent. In the process, US exports to Latin America and east Asia leaped 37 per cent, while exports to the rest of the world grew a paltry 2.1 per cent. A staggering 88 per cent of US exports growth since 1990 can be attributed to the growth of exports to these two regions.

The US appears to have maintained a comparative advantage in industries only now opening up to international trade, such as financial services. Between 1986 and 1993, global exports rose 88 per cent in merchandise goods and 105 per cent in services, while the US share of global service exports inched up from an already high 20 per cent.

Fears of serious current account problems for the US are therefore overstated and suffer from neglecting the shift under way in the pattern of US exports towards the new industries and the new industrial power houses. Assuming Godley and Milberg's trends are indeed off mark, further dollar depreciation should be resisted as it will serve to shove the global economy off balance. Further dollar weakness threatens to derail the fragile economic recoveries in Europe and Japan and to aggravate inflation pressures growing in the US. Where exchange rate changes worsen global economic imbalances rather than soften them, as today, policy makers should readily consider countervailing action.

Avinash Persaud,
currency strategist,
J P Morgan,
60 Victoria Embankment,
London EC4Y 0JP

Obvious advantages to a Cheltenham & Gloucester flotation

From Mr Paul Rivlin and Mr Peter Nicholson.

Sir, Debate of the issues raised by the Lloyds Bank bid for Cheltenham & Gloucester has focused on the problems of structuring a bid within the Building Societies Act. Too little attention has been paid to the transaction itself.

Although C&G has restricted information to members, it is apparent from the wider briefings given to analysts and the press that there is at least one immediate and viable alternative to the Lloyds bid. The current position appears to be:

1. C&G could convert to a public company and obtain a Stock Exchange listing within the existing legislation (as did Abbey National).
2. The Stock Exchange value of C&G would be about £1.8bn according to most analysts of the banking sector – ie about the same as the Lloyds bid.
3. In a flotation there would be no restriction on distributing shares to members of less than two years standing. Consequently the board could allocate shares on the basis originally proposed.
4. The listing could be underwritten so that members could choose to receive value in cash or shares. On an underwriting price of £1.8bn, the amount payable to members would be the same as the Lloyds offer, ie £500 and 10 per cent of deposits up to £100,000.

There are three obvious advantages to a flotation. First, C&G members should be able to receive the money or shares within six months as compared with the Lloyds bid timetable of mid-1995. Second, if Lloyds wishes to acquire C&G, it will have to pay the proper bid premium for control. Third, members receiving shares should be able to defer any capital gains tax liability to suit their circumstances.

There may be some losers from the proposal, including Lloyds Bank shareholders, who benefited from a 10 per cent increase in share value on the announcement, and any others with arrangements dependent on the success of the bid. It is unlikely, however, that ordinary C&G investors or borrowers would be any worse off.

It follows from this analysis that the merits of the bid should be subjected to far greater scrutiny. What are the real advantages of the Lloyds bid over a flotation? Is Lloyds paying the right price ? Are there other purchasers prepared to pay more? Are there other options? How will the board ensure that members have a real choice?

Analysts have spent some time and effort informing Lloyds Bank shareholders of the advantages of the bid. Who will perform a similar independent review for C&G members? There is no obvious body to provide investor protection for the interests of members in these circumstances, but the press can help by asking why the C&G board seems committed to a proposal with obvious flaws when there may be better alternatives.

Paul Rivlin,
Peter Nicholson,
7 Floral Street,
London WC2E 9DH

FINANCIAL TIMES
Number One Southwark Bridge, London SE1 9HL
Tel: 071-873 3000 Telex: 922186 Fax: 071-407 5700
Tuesday July 12 1994

Ukraine looks ahead

Those inclined to pessimism about the non-Russian republics of the former Soviet Union would do well to look closely at the results of Sunday's presidential elections in Ukraine and Belarus. Both polls passed off peacefully and were generally attested free and fair. Both resulted, moreover, in a genuine alternance of power and the replacement of Soviet-era incumbents – in Belarus by a populist sloganeer of uncertain policies, in Ukraine by a former missile factory manager promising gradual economic reform. Whatever now transpires, the fact that both republics have passed this test of democracy in difficult times is a remarkable and hopeful sign.

Of the two, the Ukrainian result is the more encouraging. Outgoing President Leonid Kravchuk deserved credit in his time for building a sovereign state from the ruins of the Soviet one. But he failed utterly to consolidate independence by establishing a viable economy, preferring to concentrate on a series of futile disputes with Russia. The election of Mr Leonid Kuchma, who as prime minister last year flirted with reform, is a fitting verdict on Mr Kravchuk's failure, and a signal that a majority of Ukrainians now want better relations with their eastern neighbour.

As a result, the new president will be able to make a fresh start – if he so chooses. By campaigning on a pro-Russian ticket, Mr Kuchma won overwhelming support in predominantly Russian-speaking eastern Ukraine and in the disputed region of Crimea, but he did not completely alienate the rest of the country by calling into question Ukrainian independence. His challenge now is to unite his country in confronting the twin tasks of reforming the economy and coming to terms with Russia.

Neither will be easy. For Mr Kuchma to embark on serious reform will mean inflicting severe pain on the very people who got him elected, industrial workers in eastern Ukraine who look to mother Russia for economic salvation. Equally, if he anticipates much help from Moscow – whether in continuing supplies of cheap energy or in more far-reaching economic links – he may be deluding himself. The danger is that he may have raised inflated expectations as to what he can achieve on this front; subsequent disappointment may be bitter.

If only for this reason, Mr Kuchma may well feel that he has no alternative but to press ahead with reform. If he does, he will add to his support in the east of the country that of nationalists in the west who yearn for policies guaranteeing them greater economic freedom. Provided he does not backtrack on promises to hand over nuclear weapons on Ukrainian soil, external conditions will also be set fair, with the European Union's recently concluded association agreement and the G7's promises of financial assistance. Time is short, but the desire of Ukrainian voters for change is now clear. If Mr Kuchma does not deliver, they will not be as patient with him as they were with his predecessor.

Water prices

Water customers have had a raw deal from the industry's 1989 privatisation, according to the National Consumer Council, the government-funded body that represents the interests of consumers. The accusation is not new, but it has struck a chord with public and politicians, coming just two weeks before Ofwat, the regulator, reveals the rate at which water bills will rise in the next decade.

The NCC's case rests on two charges: that the water companies' investment programme is too costly, and that the regulator has allowed too much of these costs to be passed onto households, rather than shareholders.

On the first point, the NCC has growing support. Much of the capital spending – which water companies estimate will reach £40bn this decade – is driven by European Union environmental directives. Some of these – such as the permitted level of nitrates in drinking water – appear unnecessary on health grounds. Nonetheless, the rules are currently part of UK law, which means the industry's ability to rein back spending is limited.

The NCC is right, too, to maintain that privatisation gave shareholders too good a deal. Some of its financial arguments are misjudged, such as its attack on the rise in operating costs, which is largely due to new construction. But it is clear, in retrospect, that the pricing formula did not take adequate account of efficiency gains which were achievable.

It would be wrong to lay the failings of the privatisation formula at the regulator's door. But this year's review has given Ofwat its first chance to devise a new one, and its claim to be a tough regulator will rest on the figures it reveals on July 28.

The test of Ofwat's strength centres on the return on capital it grants the companies. That rate should be much lower than in the past; given the industry's low level of risk, it should be scarcely above that on government bonds. The industry has failed to make a convincing claim that it needs a real rate of return of 9¼ per cent to attract finance.

Although Ofwat should sharply restrain the rate of increase in household bills, one reform that would cut the present level of bills is beyond the scope of its review: shifting more of the costs onto industry and agriculture.

The government says that it bases its environment policy on the "polluter pays" principle. Factories and farms which discharge effluent to sewers are, indeed, charged large sums by water companies. But if they discharge to rivers, they pay only a token amount to the National Rivers Authority, although the water companies must still bear the cost of removing this pollution.

Under present UK legislation the NRA is entitled to recover only administrative costs from polluters. Allowing it to charge the full cost of the clean up would at least help Ofwat redistribute the painful burden of paying for cleaner water.

Germany's role

As President Bill Clinton reminded Chancellor Helmut Kohl in Bonn yesterday, Germany's partners have a right to expect an active and constructive role from united Germany on the world stage. The country's six-month presidency of the European Union which started this month will provide a test of whether it can live up to these expectations.

The federal republic's geographical enlargement since its last European presidency in 1988 has increased its political weight, but has also made its internal problems more complex.

When they scrutinise Europe's senior economic power, Germany's partners are sometimes not averse to employing double standards. Germany is frequently criticised for not making a weightier effort in international peace-keeping. But when Germany tries to take a stronger policy line, for example in its desire for a permanent seat on the UN security council, it faces suspicions that it is unduly flexing its muscles.

An important milestone is expected today with a judgment from Germany's constitutional court clearing some legal obstacles on the use of Bundeswehr troops outside Nato. However, the electorate's aversion towards using German troops in foreign conflicts has been increased by the international community's failures over Bosnia. The troop deployment policy will remain highly restrained.

In the EU presidency, punctuated by the October general election, caution will be a watchword. The German electorate favours European integration, but has become more hesitant about policies constraining national decision-making. Mr Kohl wants to widen the EU towards central and eastern Europe, yet he is well aware of the economic reasons ruling out rapid membership for these countries.

Mr Kohl also has the responsibility of bringing the search for the next president of the European Commission to a successful conclusion. In trying to push through Mr Jean-Luc Dehaene, the Belgian premier, Mr Kohl showed insufficient regard for his EU partners, but during the 10 days since the Corfu summit, he seems to have digested the lessons of that misjudgment. If Bonn can steer through agreement on a new candidate at or before Friday's summit in Brussels, that would be welcome evidence that Germany can adapt national goals in the interest of finding compromises.

As the pivotal power in Europe, Germany has to accomplish the difficult balancing act of setting a lead for its EU partners and at the same time of taking account of their sensitivities towards a larger nation at the centre of Europe. Nearly four years after unification, Bonn has yet to come to terms with its new position. If it still leans more towards hesitancy than towards assertiveness, that is partly because Germany's partners and neighbours make clear that, on balance, they prefer the former to the latter.

Venezuela's economic crisis will prove difficult to resolve, say **Stephen Fidler** and **Joseph Mann**

Aspirin for a lingering ailment

Those who follow the world's emerging stock and bond markets often mince their words. But they are almost unified in their despair at the developments in Venezuela since the government of President Rafael Caldera took office in February.

"The Caldera administration has, [since] taking the reins of power, succeeded in shooting itself in the foot... and blowing away most of its good leg," Mr Victor Galliano of LatInvest, a London-based stockbroker specialising in Latin American markets, told the firm's clients.

According to Mr Peter West, an economist with West Merchant Bank, the London subsidiary of Germany's Westdeutsche Landesbank: "The rapid deterioration in the country's economic situation this year under the Caldera government can only be seen as the unfolding of the worst case scenario."

In international financial circles, where Venezuela was until three years ago viewed as one of the most promising prospects in Latin America, the Caldera government is reckoned to have inherited an economy in bad shape and succeeded in making it worse. The financial markets now price Venezuela's Brady bonds, issued as part of the government's 1990 debt agreement with international banks, at levels comparable with Nigeria's.

The view of foreign financiers may be the least of Mr Caldera's worries as he grapples with the crisis which, if it continues, may threaten the country's already fragile social and political fabric.

Yet the country's fall from grace underlines the difficulties of managing an economy dominated by a single commodity, in this case oil. As the three biggest Latin American economies, Mexico, Brazil and Argentina, face presidential elections in the next 12 months, it may also demonstrate to other countries in the region the risks of authoritarian and populist responses to economic problems.

With justification, the 78-year-old Mr Caldera blames others for the genesis of the crisis he now faces. Announcing wide-ranging new controls on the economy last month, he said: "This crisis was not created by us. It is a crisis that is the product of a long period of corruption, of a long period of serious mistakes made in the life of the nation. We have tried to confront this crisis using all ordinary means, but we have arrived at the point where we feel the urgent need to use... extraordinary means."

These measures, announced on June 27, included the abolition of six constitutionally guaranteed economic freedoms, controls on foreign exchange operations and on the prices of many goods and services, an official pledge to push for lower interest rates, and the obligatory payment of a monthly "bonus" to most government and private sector employees. Together, they constituted the most significant attempt to impose state control over an economy in Latin America since the 1980s.

The government almost immediately put some of its new powers to work. Police, national guard soldiers and state security officers launched a series of raids aimed at apprehending criminals in the massive slums – *barrios* – around Venezuela's main cities. They jailed "price speculators" and confiscated food products held by "hoarders", as well as investigating individuals believed by the security police to be planning destabilisation efforts against the government.

The measures were prompted by the worst banking crisis to hit Latin America since the collapse of the Chilean banking system 11 years ago. It was triggered by the failure of the country's second-largest bank, Banco Latino, in January – the culmination of years of lax regulation and doubtful lending.

The state now owns a significant minority of the banking system and controls the rest. The knock-on effects threaten other enterprises – and some well-known business dynasties.

Foreign exchange transactions formally restarted yesterday at a government-set fixed exchange rate of 170 bolivars to the dollar – after being forbidden for nearly two weeks. This followed near-collapse in the free-market price of the bolivar, which has fallen by half since the start of the year.

As the government pumped in money to shore up the banks, the budget deficit widened, according to an International Monetary Fund document quoted in a Venezuelan newspaper, to 17.5 per cent of GDP this year. Inflation is rising – to a forecast 70 per cent or more this year, from 46 per cent last – though, if price controls hold, inflation may be curbed. Overall, the economy is expected to contract for a second successive year – economists' expectations range between 3 per cent and 10 per cent.

The roots of the problem, as Mr Caldera says, go back a long way. Oil made Venezuelans the richest citizens of Latin America, but encouraged them to view themselves as shareholders owed dividends by a rich enterprise. The country's latest period of democracy, which dates from 1958, survived by the judicious distribution of oil wealth. The oil boom of the 1970s brought an epoch of government extravagance and corruption.

Throughout most of the 1980s, the government continued in this vein, failing to adjust to the collapse of oil prices. By the time Mr Carlos Andrés Pérez assumed power in 1989 for a second term as president, the state-dominated economic model, with high inflation and heavy government deficits, appeared to be in its death throes.

Mr Perez initiated a series of market reforms. After price controls were abandoned in February 1989, 300 people were killed in food riots. The *rentier* mentality encouraged by oil wealth meant Venezuelans were always likely to find free-market medicine more unpalatable than other Latin Americans.

Moreover, in retrospect, Mr Perez was ill-suited to the task of demanding economic sacrifice from his people. His 1970s government was regarded as one of the most venal in Venezuelan history. Last year, after facing two military uprisings in 1992, he was forced to step down early to face corruption charges and is now in jail.

Mr Caldera's reputation is as austere as Mr Perez's was flamboyant. His victory in last December's elections followed a campaign emphasising energetic measures against corruption, inflation, and devaluation, and a rejection of market reforms. Some viewed it as a vote for nostalgia – Mr Caldera entered politics in the 1940s and his first term of office from 1969-74 seems a golden age in retrospect.

But now he faces the problems of shortage, not the plenty of the 1970s. Like most Latin American politicians of his era, he is of an authoritarian cast and appears to have overruled his ministers on many occasions. "The clearly interventionist nature of the new measures points strongly to Caldera himself as the architect of these misguided populist policies," said Mr Galliano of LatInvest.

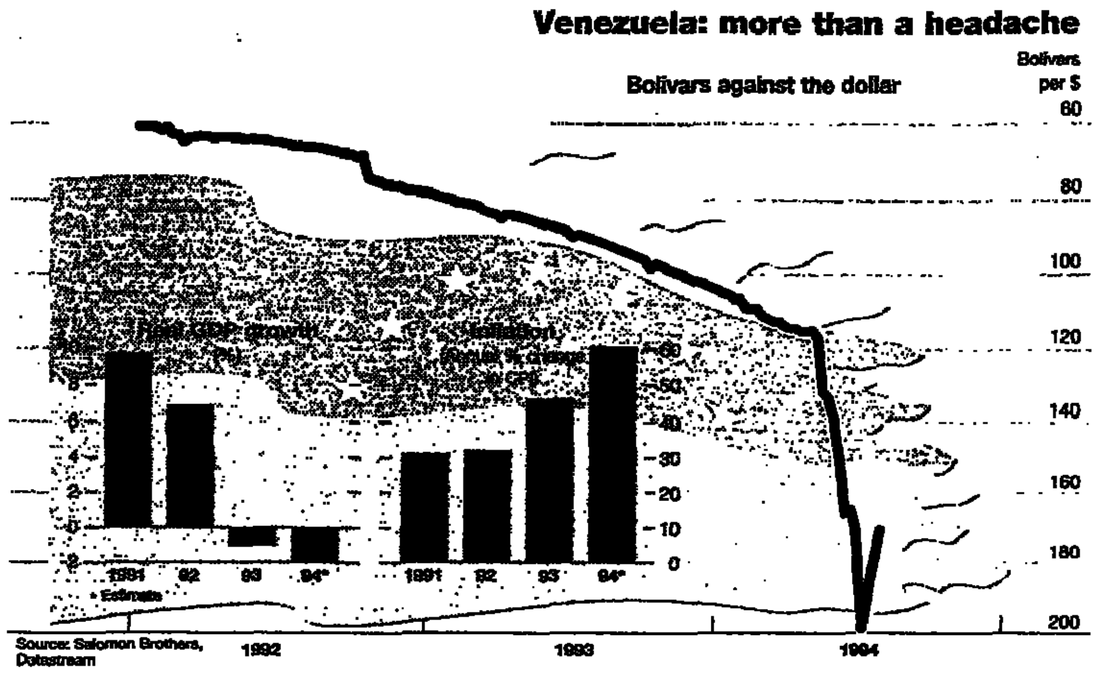
The efficacy of the price and currency controls are widely doubted. Mr Francisco Vivancos, professor of economy at Andres Bello Catholic University in Caracas, says controls on prices and foreign exchange "are like an aspirin that doesn't attack the illness".

Many economists believe the best hope lies in the statements from government officials that the measures will be "temporary", and that price controls and the other actions could end in December. While controls are likely to be popular initially – as will the boost to salaries – if they last too long, hoarding, shortages and a high-priced black market could develop, causing popular dissatisfaction.

The hopes that the policies will be reversed somewhat lies with a group of supposedly more market-oriented ministers – perhaps including Mr Julio Sosa, the finance minister. Mr Caldera has lost four cabinet ministers and the governor of the supposedly independent central bank, Mrs Ruth de Krivoy.

According to Mr George Philip of the London School of Economics, the government now needs to take decisive fiscal measures to close the budget deficit. This will mean taking a tough line with depositors of the failed banks, higher taxes and public spending cuts.

This, he argues, will bring about real political conflict, something Mr Caldera has avoided so far. Yet if he avoids this conflict, the alternative is hyperinflation. That is only likely to worsen the country's deep social and military tensions.



Europe must sharpen competitive edge

PERSONAL VIEW

Would the chief executive of a multinational company with $1bn to invest choose Europe as a location during the next decade? My experience is that many large companies are directing discretionary investment elsewhere.

Why? Europe is an enormous market, but despite rises in gross domestic product per capita, Europe's ageing population and low birth rates point to slower growth in the future. Moreover, the World Competitiveness Report, compiled by the Imede business school in Switzerland, points out that a region's competitiveness is grounded in processes that turn assets into results. It concludes that Europe is not transforming ideas into better products, more quickly and more cheaply than other regions. Increasing trade deficits and unemployment are the result.

At the same time, it costs more to produce in Europe today than anywhere else in the world. One factor is the high cost of labour and the inflexibility of rules and regulations affecting it. Another is the fact that energy, many raw materials and telecommunications cost more in Europe than in the US and Japan.

All this suggests Europe has yet to confront its competitive disadvantages – or pursue its competitive advantages. Policymakers should focus their attention in four areas.

First, giant strides have been made towards a genuine single market, but the job of freeing up business is far from complete. The Uruguay Round is important, but free trade is about more than the absence of tariffs – it requires the elimination of old mindsets that are still evident in Europe.

Consider an example: improving efficiency in the workplace. Instead of a dialogue about how production processes can be streamlined, we have seen in Europe a long, unresolved debate about procedural mechanisms for consulting workers. In other regions, new work systems are being tested and adopted to make companies more aggressive, customer-orientated and productive.

Second, European Union laws and regulations should be simplified to allow companies to organise themselves efficiently. One particular problem is the variety of national requirements in Europe which mean companies have to organise networks of local subsidiaries. The administrative costs of parallel national subsidiaries add cost but no value to the customer. In the US, a company can be incorporated in one state and operate in all 50.

A single currency is essential for European integration and for creating a transparent market

Third, policymakers should recognise that industrial restructuring is essential to long-term competitiveness. It can take several forms, including the shutting down of excess capacity or obsolete plants, modernising assets to make them globally competitive, and purchasing or selling businesses to focus a company's strengths. A year ago DuPont acquired ICI's nylon business and ICI acquired DuPont's acrylics business. Approval for that agreement was given by the European Commission in a timely way – more timely than the process required by the US Federal Trade Commission. We found officials of the European Commission to be enlightened, focused on economic and competitive realities, and quicker than US counterparts. European companies should see that as an advantage.

While facing up to the need for restructuring, Europeans should also realise that eastern Europe is not a drag, it is an opportunity – a frontier. But standard project analysis is likely to preclude many companies from investing in eastern Europe because of risk and long-term payment concerns. Business and government will require leadership and determination to see eastern Europe as an opportunity rather than western Europe's special burden.

Finally, it is important that Europe adopts a single currency. From the international perspective, this is essential for European integration and for creating a transparent market. Without a single market it is difficult to harmonise the terms under which we deal with our customers in different countries – who are, after all, competing in a single market.

Years of patient and difficult effort to promote a level playing field have been undone overnight by recent devaluations. We are, for example, still feeling the effects of the devaluations of the Spanish, Portuguese and Irish currencies, as well as the floating of the Italian and British currencies – some of which took place nearly two years ago.

I believe Europe can find the resolve needed to make progress on social, economic and political fronts. But the successful integration of the European market is not a foregone conclusion and it is not clear Europe has yet realised the change needed to become internationally competitive.

Edgar S. Woolard Jr

The author is chief executive of DuPont

OBSERVER

MI6 remains inscrutable

■ Bad luck all those who hoped that MI6, that branch of Britain's intelligence service which supposedly concentrates on keeping Britain safe from foreign spies, would be adopting as high a public profile as its sister organisation, MI5.

The Secret Intelligence Service has moved quietly into its expensive new Vauxhall Cross HQ, adjacent to London's Vauxhall Bridge, without even bothering to have an official opening to thank the representatives of the British taxpayer. It admits to a postcode (SE1 1BD), but its new telephone number remains a state secret.

Indeed, the secrecy is such that Observer hears Britain's taxpayers can no longer use the coin-operated public telescope on the other side of the River Thames to inspect the country's substantial investment in MI6. It disappeared in mysterious circumstances earlier this year and cannot be traced. So much for the openness of government promised by the prime minister.

Peanut index

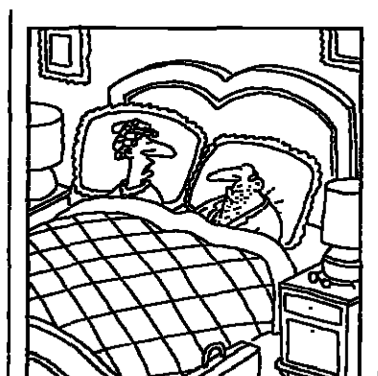
■ One of the things Deutsche Bank chairman Hilmar Kopper will not want to be remembered for is that he was the man who introduced "peanuts" into the popular German banking vocabulary. He first coined the term several months ago to describe the DM50m owed to tradesmen working for the bankrupt Jürgen Schneider property group.

Kopper's throwaway remark at a press conference was immediately picked up (and translated into German) by the domestic tabloid press, which seized on it to illustrate the big banks' arrogance at a time of recession. Despite a belated, and somewhat grudging, apology from Kopper, it is starting to take hold in Frankfurt business and banking circles as a convenient unit of account. As in: Deutsche Bank will have to make a 10 peanuts – alias DM500m – provision against likely bad debts on its exposure to Schneider.

But a backlash is already under way. "Because we're speaking German here, I'm not going to use the word peanuts," said Kajo Neukirchen, chairman of the Metallgesellschaft group last week, rebuffing a request to know how many peanuts the group hoped to raise from the sale of its mining activities. (The answer: about 10.)

Royal parking slot

■ Sir Donald Gosling's generous offer to contribute £5m and orchestrate a fund to replace the Royal Yacht Britannia has caught the popular imagination. If anyone can pull it off, it is the National Car Parks' swashbuckling boss,



'You were asking questions in your sleep'

dubbed the merchant adventurer of the parking lot.

Gosling already owns the 245ft Leander, proudly trumpeted as the largest non-royal British yacht afloat, so he should know where to get the best buy – even if it means shopping abroad.

Leander, unlike Britannia, was built using largely Russian naval expertise at a military dockyard in former East Germany which used to build ships for the Soviet navy. Gosling was not the original client. The mysterious Tim Landon, a Hampshire landowner and ex-Army officer, commissioned the ship, which was a by-product of a "swords into ploughshares" programme. Leander was sold to Gosling before it was launched.

Landon is more than just a farmer. At one stage he was the link between the Oman government and Whitehall during the secret war largely fought by SAS troops against Omani rebels. Sources in the super-yacht industry say that Landon, still close to Sultan Qaboos, is planning to build an even bigger gin-palace inside the former Soviet Union. Could he have the biggest client of all in mind for this one?

Waves of applause

■ Calling all opera buffs. Whether or not Verdi wrote *Aida* to mark the opening of the Suez Canal in 1869 or the new Cairo Opera House, it is a mite surprising that Sir Harrison Birtwhistle, or one of the Living Opera mob, has let the inauguration of the Channel tunnel pass without offering up a musical tribute.

It has been left to Paul Smith, organ builder, musician and security guard, to pen an organ work which he has dedicated to the tunnel. If all goes well, it will get its world premier in Trier Cathedral in Germany later this year.

Smith, a lay clerk in Ely Cathedral choir, is a humble sort and admits that his work could double up as background music on Channel tunnel trains and in the terminals. It is called *Fantasy: Endure to the end*, from a Biblical quotation also borrowed by Mendelssohn for a chorus in his Elijah oratorio: "He that shall endure to the end shall be saved".

Given the constant delays which have dogged the Eurotunnel project in recent months, it's just the sort of overture which should catch the fancy of a promoter like Sir Alastair Morton, Eurotunnel's co-chairman.

Second thoughts

■ Red faces at Salomon Brothers after Italy's Cariplo, the world's largest savings bank, suspended its planned share offering, for which Salomon was global co-ordinator.

Only days before the postponement, Salomon had issued a press release attacking a "misleading press report" in Il Sole 24 Ore, the Italian financial newspaper, which had suggested that the international offering was likely to be postponed. Salomon's release – headlined "Cariplo share offering very much on track" – even carried a quote from Cariplo chairman Sandro Molinari stating: "It is certainly our intention to proceed as planned."

Party time

■ Heard about the new style of "Karaoke politics" in Japan? Everybody gets a turn to sing.

FINANCIAL TIMES
Tuesday July 12 1994

Reconciliation with west on track despite Kim's death

N Korea to resume nuclear talks

By John Burton in Seoul and Quentin Peel in Bonn

North Korea yesterday indicated that it would resume negotiations with the US and South Korea to ease tensions over its nuclear programme in spite of postponing the meetings following the death of its president, Mr Kim Il-sung.

Mr Kim died last Friday as North Korea began high-level discussions with the US to resolve the dispute over Pyongyang's nuclear programme and two weeks before he was scheduled to meet South Korean president Kim Young-sam in an unprecedented summit meeting.

Pyongyang formally notified South Korea yesterday that an inter-Korean summit would have to be postponed, but it did not say that the meeting should be cancelled. This followed a message to the US suggesting that North Korea would reopen talks in Geneva as early as next week, after Mr Kim's funeral on Sunday.

The statements were the first sign that Mr Kim Jong-il, the son and designated successor of the late president, would continue to pursue the reconciliation with the west that his father adopted in recent weeks.

The country's borders have reportedly been sealed off to foreigners until after Mr Kim's funeral on Sunday. But the North Korean media reported messages of condolence from world leaders, including statements by US president Bill Clinton and his predecessor Mr Jimmy Carter, who met Mr Kim last month in an attempt to break the impasse over the nuclear dispute.

Mr Clinton expressed confidence yesterday that North Korea will resume talks with the US after "an appropriate period" to mark the death of President Kim Il Sung.

Mr Clinton said at a press conference in Bonn that there was "no pie-in-the-sky optimism" but it seemed nuclear reprocessing would be suspended and the talks would resume at a "reasonable time". "I think that's good news," he said.

Asked if he was concerned about the character of the younger Kim, he said: "I don't know the younger Kim. And I think you have to be careful in judging people by what others say about them, one way or the other."

South Korean officials suggested they welcomed a delay to the summit since they want to make sure that the political situation in Pyongyang is stable before restarting talks.

They predict it might take six months for Mr Kim Jong-il to consolidate his power in the face of possible opposition from the military and other conservatives who distrust the young generation of technocrats that he is believed to represent.

North Korea's ruling Workers' party and parliament will hold emergency sessions this week and are expected to appoint Mr Kim as the country's new leader. South Korea said it could accept Mr Kim as North Korea's next leader, in spite of his alleged involvement in planning terrorist attacks against the Seoul government in the 1980s, if his appointment ensures continued stability on the Korean peninsula.

Officials in Seoul believe that Mr Kim may support gradual economic reforms and improved relations with the US and South Korea in an attempt to save the his country from economic collapse.

Japanese reaction, Page 7

US climbs down in feud with French over Aids research

By Jeremy Kahn in Washington and Clive Cookson in London

French and US health researchers said yesterday they had reached a settlement in the bitter medical feud which erupted in the 1980s over who should reap the commercial and scientific rewards for discovering the Aids virus.

The agreement, between the US National Institutes of Health and France's Pasteur Institute, will provide the French with a bigger share of the royalties from the sale of testing kits for HIV, the virus that causes Aids.

The deal represents a climb-down by the Americans who also acknowledged officially that "scientists at NIH used a virus provided to them by [the Pasteur Institute] to invent the American HIV test kit".

Dr Harold Varmus, NIH director, said the agreement should "normalise the sometimes rocky relations" between his agency and the Pasteur Institute. "Today's agreement is fair and equitable," Dr Varmus said. "It is also in the best interests of science and of the American and French people. It reflects a sincere commitment by both sides to bring this matter to a close."

The French called the accord "a satisfactory conclusion" to the concerns raised.

Yesterday's settlement replaces a 1987 agreement which was announced jointly by US President Ronald Reagan and French prime minister Jacques Chirac. It gave the two sides equal credit for discovering the virus and was supposed to divide the royalties from the testing kits equally between the US and France.

In fact, since the agreement NIH has received about $20m in royalties and the Pasteur Institute about $14m, because more US testing kits are sold than French kits.

This discrepancy – and the 1991 acknowledgement of Dr Robert Gallo, the US researcher credited with discovering HIV, that he had accidently used a French virus sample in developing his test – angered the French who threatened to sue to recover royalty payments.

Dr Gallo was cleared of any misconduct by an internal review last year. But yesterday's acknowledgement by NIH means that Dr Luc Montagnier, the French co-discoverer of the virus, will receive more scientific credit.

Under the latest agreement, each country will be allowed to keep the first 20 per cent of royalties from the sale of kits. However, the remaining royalties will be pooled and divided under a new formula – 50 per cent will go to France, 25 per cent to the US and 25 per cent to the World Aids Foundation, an international research charity.

The Pasteur Institute will receive "several hundred thousand more dollars per year" as a result of the new deal, an NIH spokesman said.

Kravchuk defeated in Ukraine

Continued from Page 1

from working class backgrounds and where there are high concentrations of the nation's 11 million ethnic Russians.

Mr Kravchuk's office was slow to concede defeat. Presidential spokesmen who proclaimed victory for the incumbent on Monday morning did not admit Mr Kuchma had won until late in the afternoon. Mr Kravchuk himself has not yet spoken.

The president-elect now faces the unenviable task of reconciling his often contradictory campaign promises, which could be undermined by a potentially hostile parliament.

Eastern Ukrainians and separatists on the Crimean peninsula, to whom he owes his victory, expect him to seek closer ties with Russia.

However, Mr Kuchma, who insisted upon his Ukrainian patriotism in the last weeks of the campaign, must also assure nationalist western Ukrainians that he will preserve the country's independence.

Mr Kuchma appeared to have begun the process of national reconciliation on his arrival in Kiev from his base in Dnipropetrovsk in eastern Ukraine, saying: "Everything that happened during the campaign was criminal in terms of confrontation between east and west... If we act intelligently, we can overcome this split."

On the economic front, Mr Kuchma must also appease warring constituencies to whom he has sent mixed messages. Mr Kuchma's aides have claimed that the new president's pro-market campaign and support for liberalisation as prime minister in 1993 won the pro-reform vote. He has promised to include market reformers in his cabinet.

Coffee prices leap after Brazil hit by second frost

Continued from Page 1

peak in London of $4,000 a tonne for coffee for delivery in three months.

"We're looking at a situation where higher prices are needed to ration demand," said Ms Ganes. "Brazil could run out of coffee by mid-1996. It's the world's largest producer. That's a pretty scary thought."

In New York, September futures prices for arabica coffee, which accounts for the bulk of Brazil's production, were up 50.40 cents at 238.75 cents a pound, or 27 per cent, in afternoon trading. The September contract in London closed $759 higher at $3,635.

The market's nervousness is partly due to the weather outlook. The frost season can run through until early September, and cool weather is forecast for next weekend.

The meteoric rise in prices has prompted some producer countries to call for a revival of international export quotas. Concern is mounting about the impact of the price rises on consumption, particularly in emerging markets such as eastern Europe.

Dollar at new low

Continued from Page 1

implicitly that there is very little that they can do."

Mr Hannah added that in the context of the G7's strong commitment to free markets, "it would be illogical to stand in the way of a move that is clearly a reflection of changing market fundamentals."

Analysts said among other factors that contributed to the dollar's weakness, was a concern that the US Federal Reserve has not moved aggressively to combat inflationary pressures.

THE LEX COLUMN

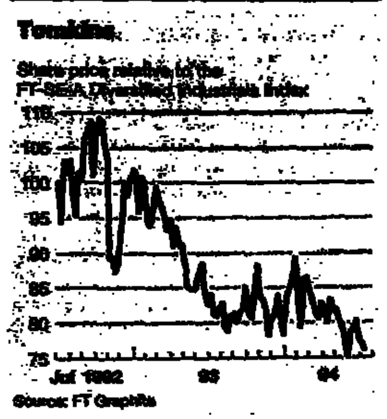
Lilly in the pink

After yesterday's acquisition by Eli Lilly, drugs companies have spent $12bn buying their biggest customers. All the large pharmacy benefit managers – the middle-men who buy drugs on behalf of US healthcare providers – are now in the hands of manufacturers. While Lilly and SmithKline Beecham have followed the trail blazed by Merck, though, Glaxo has yet to make a move. The fall in its shares yesterday suggests some disappointment that Glaxo has not followed the herd into vertical integration.

Yet it is not clear that Glaxo could justify the high prices paid by its peers. Lilly yesterday agreed to spend $4bn on a business with earnings of $30m. The sums only stack up if owning a benefit manager allows Lilly to increase sales of its leading drugs far faster than it could otherwise do. Since Lilly has a number of drugs with relatively low market shares in highly competitive areas of therapy, it may be able to achieve as much. SmithKline Beecham was in a similar position. Glaxo's dependence on Zantac, the anti-ulcer drug which is already market leader but whose future will be decided in the US courts, makes the benefits of vertical integration less clear cut.

That is not to deny Glaxo's strategic weakness. The three biggest US benefit managers are now in the hands of companies which make competitors to Zantac. And Zantac still accounts for an uncomfortably large proportion of Glaxo's profits. An acquisition to widen its spread of products would be a way out of the group's strategic bind. Direct links with providers, such as healthcare management organisations or even hospital groups, cutting out the pharmacy benefit middlemen, might also do the trick.

FT-SE Index: 2983.8 (+21.4)



Source: FT Graphite

Tomkins

The market might seem churlish in continually marking down Tomkins' share price relative to those of its peers. Mr Greg Hutchins, the conglomerate's chief executive, certainly thinks so. He argues that the £1bn RHM acquisition at the end of 1992, which was responsible for the change in market sentiment, was a good deal. It has enhanced group earnings per share in the year by 4-5 per cent to the end of April. And though some of the food businesses in which RHM operates have been difficult, others have not. In the meantime, Tomkins presses ahead with introducing management controls and cutting costs.

All this is fair enough as far as it goes. But until the points are made with greater conviction, doubts will remain. For example, Tomkins has done nothing to help investors understand how its figure for the contribution of RHM to earnings per share is calculated. Moreover, integrating RHM is taking longer than anticipated – four years rather than three.

None of this means the RHM deal was a dud. But it is good enough reason for the market to wait for further evidence. While Mr Hutchins may continue to be disappointed, a weak share price is unlikely to constrict his freedom of manoeuvre. With a strong balance sheet, including £156m net cash, he probably does not need the market to underwrite his next big deal.

UK economy

Yesterday's producer price figures provide ammunition for both optimists and pessimists on inflation. Input prices are accelerating faster than financial markets expected, driven by the upswing in the commodity cycle. That will not surprise companies operating at the cutting edge of the real economy; prices of basic raw materials such as pulp, plasterboard and PVC have been rising for months. Yet the lowest annual growth in output prices since the late 1960's suggests these manufacturers have not been able to pass on higher raw materials costs to their customers.

Against that background, the rise in the number of companies looking to increase prices – recorded by the CBI last month – looks more like wishful thinking than a real inflationary threat. There is no denying that manufacturers' margins are being squeezed at present, even though falling input prices in the second half of last year allowed margins to be widened a touch. Commodity prices are also a relatively small proportion of manufacturers' total costs. If tomorrow's average earnings figures show upward pressure on unit labour costs, the markets will have more reason to worry.

British Land

Such is the overblown reputation of Mr George Soros that when his Quantum funds sell down their stakes in British Land and Berkeley Group then half the market seems to run around trying to read the runes. Whether it is significant that Quantum is exchanging British Land paper for a greater exposure to direct property at this point in the cycle is a moot point. On the face of it, Quantum's approach contrasts with that of other investors, such as PosTel, which have been busy swapping properties for shares. But that difference may owe more to both parties' respective portfolio needs than any striking divergence in investment strategy. Quantum's move may simply reflect the fact that it can sell its British Land shares for 35 per cent more than it bought them a year ago.

British Land's shares are unlikely to match that performance over the coming year. After the mini-bounce of the past few weeks, property shares have narrowed their discount to net asset values. Yet growth in rental income is proving hard to achieve. There must also be some uncertainty about what the financial implications of British Land's longing for Broadgate Properties will turn out to be.

US dollar

President Clinton's policy of "benign neglect" towards the dollar had predictable results yesterday. The currency tumbled against the D-Mark and fell to a historic low against the yen. Mr Clinton may not want the pain of higher interest rates before this year's mid-term elections. But, given the high US trade deficit, he cannot afford to see the dollar slide turn into a rout. Some inducement is needed to persuade foreign investors to finance the trade gap. The best move would be a rise in short-term rates, which would be justified anyway because of the strength of the domestic recovery. But if the Fed is unwilling to act, the pain will come through higher bond yields.

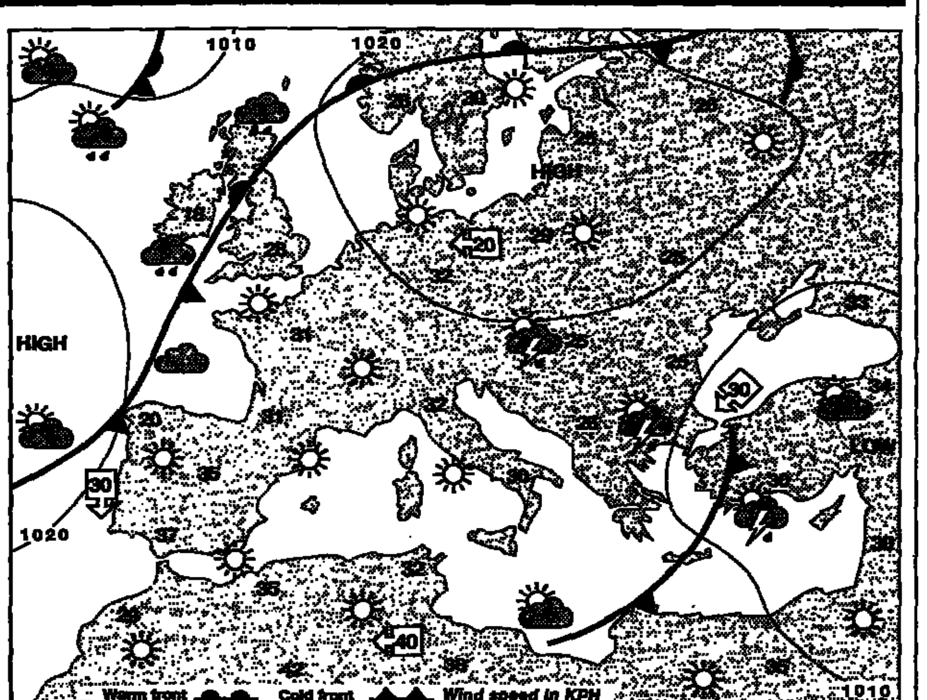
FT WEATHER GUIDE

Europe today

Conditions will be generally warm, with plenty of sunshine. Afternoon temperatures around 30C will be common, while temperatures in the Spanish interior will reach 35C-40C. The air will stay dry in France, with scattered thunder showers. Frequent thunder showers will keep the Balkans and Greece several degrees cooler. Scattered showers will develop to the east of the Appenines in Italy. There will be rain in Scandinavia near a wavering cold front. Conditions in southern Sweden and in Finland will be sunny and warm, influenced by a zone of high pressure over the Baltic Sea. Afternoon temperatures will rise to 26C-31C in south-eastern Sweden.

Five-day forecast

Cooler ocean air will flow towards the continent by Wednesday, triggering thunder showers in France. Scattered thunder showers may reach southern England later tomorrow. France, the Benelux, and Germany will have thunder storms as the cooler air moves toward the east. Conditions over the Balkans and Greece will become more settled, with afternoon temperatures several degrees higher. Scattered thunder showers will develop over western and central Turkey later in the week.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES (Maximum Celsius)

City		°C	City		°C	City		°C
Abu Dhabi	fair	43	Beijing	rain	32	Caracas	fair	25
Accra	fair	29	Belfast	rain	18	Cardiff	shower	24
Algiers	fair	33	Belgrade	thund	26	Casablanca	fair	23
Amsterdam	sun	30	Berlin	sun	31	Chicago	fair	31
Athens	fair	29	Bermuda	sun	32	Cologne	sun	32
Atlanta	thund	31	Bogota	shower	18	Dakar	fair	30
B. Aires	sun	18	Bombay	rain	30	Dallas	fair	33
B.ham	fair	27	Brussels	sun	31	Delhi	fair	38
Bangkok	rain	33	Budapest	thund	28	Dubai	fair	42
Barcelona	sun	27	C.hagen	sun	26	Dublin	rain	18
			Cairo	sun	35	Dubrovnik	fair	29
			Cape Town	fair	15	Edinburgh	cloudy	21

City		°C	City		°C	City		°C
Faro	sun	30	Madrid	sun	35	Rangoon	drzzl	32
Frankfurt	sun	33	Majorca	sun	31	Reykjavik	cloudy	13
Geneva	fair	29	Malta	sun	29	Rio	cloudy	21
Gibraltar	sun	30	Manchester	cloudy	25	Rome	fair	30
Glasgow	rain	20	Manila	rain	30	S. Frsco	sun	22
Hamburg	sun	31	Melbourne	cloudy	13	Seoul	fair	33
Helsinki	cloudy	26	Mexico City	fair	24	Singapore	fair	32
Hong Kong	fair	31	Miami	fair	31	Stockholm	fair	31
Honolulu	fair	31	Milan	fair	31	Strasbourg	sun	32
Istanbul	shower	25	Montreal	fair	27	Sydney	fair	18
Jakarta	fair	31	Moscow	fair	27	Tangier	fair	31
Jersey	fair	25	Munich	fair	28	Tel Aviv	sun	32
Karachi	cloudy	31	Nairobi	fair	26	Tokyo	sun	32
Kuwait	sun	46	Naples	fair	30	Toronto	fair	30
L. Angeles	sun	29	Nassau	fair	32	Vancouver	fair	25
Las Palmas	fair	26	New York	sun	31	Venice	shower	29
Lima	cloudy	18	Nice	sun	28	Vienna	thund	26
Lisbon	sun	29	Nicosia	sun	35	Warsaw	fair	29
London	fair	29	Oslo	fair	27	Washington	sun	32
Lux.bourg	sun	30	Paris	sun	29	Wellington	fair	9
Lyon	fair	31	Perth	fair	17	Winnipeg	shower	23
Madeira	fair	26	Prague	fair	26	Zurich	shower	26

FINANCIAL TIMES
COMPANIES & MARKETS
©THE FINANCIAL TIMES LIMITED 1994
Tuesday July 12 1994

IN BRIEF

Alusuisse to sell US business

Alusuisse, the Swiss aluminium, packaging and chemicals group, is to sell its loss-making US aluminium business, Consolidated Aluminium Corporation (Conalco) to Ormet Corporation, the fourth largest producer of primary aluminium in the US. Page 18

Exodus from the top of TWA
Since coming out of Chapter 11 bankruptcy protection at the end of last year, Trans World Airlines, the seventh biggest US airline, has seen an exodus of senior managers. Page 18

Bata appoints outsider
Bata, the Canadian family-owned footwear empire, has brought in an outsider – from RJR Nabisco – as chief executive for the first time in its 100-year history. Page 19

Victoire reshuffles share structure
Victoire, the French insurer, plans to reshuffle its share structure and distribute FFr4.11bn ($774m) in bonus shares and dividends to shareholders in preparation for its takeover by Commercial Union of the UK. Page 19

Delta to cut 4,500 customer service jobs
Delta Air Lines, the third biggest US airline, is cutting 4,500 jobs from its airport customer service division during the next 12 months. Page 19

Dell retreats from retail stores
Dell Computer, the US personal computer manufacturer, is withdrawing from retail stores distribution in order to focus on direct sales via mail and telephone. Page 19

Low & Bonar rises 42% at interim
Low & Bonar, the international packaging, plastics and specialist materials group, unveiled a 42 per cent increase in interim profits following a sharp improvement in sales and productivity. Page 22

OFT to investigate Healthcall
The Office of Fair Trading is to investigate allegations of anti-competitive practices by Healthcall, the UK's largest provider of out-of-hours doctors. Page 22

Sunny spells

AG Barr, the Glasgow-based soft drinks company, is hoping for further warm weather after pre-tax profits for the six months to April 30 1994 rose to £2.23m ($3.4m), from £1.6m. Page 23

Companies in this issue

Market Statistics

Chief price changes yesterday

FRANKFURT (DM)				**PARIS (FFr)**			
Rises				**Rises**			
Dresdner Bank	382.5	+	4.3	AXA	214.2	+	9.4
Hochtief	950	+	30	Bancaire Cie	517	+	22
KHD Deutsche	282	+	6	Canal Plus	865	+	35
Mannesmann	418.5	+	16.5	Fromageries Bel	5180	+	200
Porsche	839	+	21	Havas	448.4	+	17.8
Falls				Suez	285	+	10.1
Lufthansa	648	–	11	**TOKYO (Yen)**			
NEW YORK ($)				**Rises**			
Rises				Dai Tokyo F&M	819	+	24
Circus Circus	27⅞	+	½	Godo Steel	647	+	12
McKesson	98¾	+	2⅝	M'Bishi Gas Chm	481	+	18
Falls				**Falls**			
Bristol-Myers	52⅛	–	⅞	Kantary	1150	–	30
Eli Lilly	50⅝	–	7	Nikon Parking	806	–	23
Gaming Corp	3	–	¾	Okamura-Gumi	860	–	27
Warner-Lambert	66⅛	–	1⅝				

New York prices at 12.30.

LONDON (Pence)							
Rises				Regent Inns	221	+	9
Arjo Wiggins	283	+	9	Rolfe & Nolan	348	+	16
Ellis & Everard	255	+	18	Sanderson Bram	198	+	15
GKN	603	+	15	Thorn EMI	1053	+	14
GUS	587	+	14	**Falls**			
Harris (P)	159	+	11	Andrews Sykes	75	–	7
Hewitt Whitley	146	+	8	Balgonie	278	–	23
Inchcape	443	+	15	Cropper (J)	314	–	46
Lloyds Chemist	307	+	11	MR Data Mangmt	144	–	33
Low & Bonar	463	+	16	Nichols (Vimto)	212	–	8
MAID	69	+	12				
ML Labs	214	+	10				
Pelican	91	+	4				

■ Financial charges reduced as debt cut to FFr105.6bn ■ Strong growth in mobile services

France Télécom profits surge 45%

By John Ridding in Paris

France Télécom, the state-owned telecommunications operator, yesterday announced a sharp jump in net profits for last year, from FFr3.3bn ($590m) in 1992 to FFr4.8bn.

The increase was achieved on a slight rise in sales from FFr122.6bn to FFr127bn, and reflected a fall in financial charges as the operator pursued a policy of debt reduction.

At the end of last year, group borrowings were reduced to FFr105.6bn, compared with FFr111.6bn at the end of 1992.

As a result, financial charges fell to 6.9 per cent of sales, as opposed to 8.4 per cent. The results were achieved after a FFr15.2bn payment to the state, the same as in 1992.

France Télécom said that the rise in sales, which confirmed its position as the world's fourth largest telecoms group after NTT of Japan, Deutsche Telekom and AT&T of the US, was achieved against a background of depressed demand because of the recession in France.

In the context of the difficult economic environment, the company said that the improved revenues reflected the impact of new products, such as Itineris and Bi-Bop, its mobile telephone services.

The mobile radio-telephone service Itineris had 78,700 subscribers at the end of last year, while Bi-Bop, which requires the user to be near a base station, had 33,000 subscribers. Both services have seen increasingly strong growth.

The group also saw continued expansion of its Minitel teletext activities. The number of subscriptions rose from 6.3m to 6.5m, while the number of services available on Minitel rose to 23,000.

France Télécom plans to continue with its strategy of reducing debt, while seeking partnerships in its core telecoms activities and in new areas such as multimedia.

Last month, the company announced the formation of a partnership with Deutsche Telekom and Sprint of the US to provide services to multinational clients. This represented an extension of the French operator's existing alliance with Deutsche Telekom, formed in 1993.

The alliances do not yet include equity participations, partly because of France Télécom's public sector status. Plans to reform the status of the French group, a necessary step before any eventual privatisation, have been delayed while the proposal is discussed with unions.

France Télécom has also been forming alliances in the multimedia field. It has recently concluded agreements with communications and publishing groups in France, the US and Japan.

The group said that total investments during 1993 amounted to FFr35.2bn, an increase of 17 per cent.

Crédit Lyonnais inquiry comes to light today

By Alice Rawsthorn in Paris

The French parliament will today publish an official inquiry into the problems of Crédit Lyonnais, the banking group. The report is understood to be fiercely critical of the regulatory authorities and the management team led by Mr Jean-Yves Haberer, the bank's former chairman.

Crédit Lyonnais, a public sector company which is one of Europe's biggest banks, was forced earlier this year to ask the government to support a FFr44.9bn ($8.1bn) financial rescue to repair its balance sheet after running up a net loss for 1993 of FFr6.9bn.

The government immediately formed a parliamentary committee of inquiry led by Mr Philippe Séguin, president of the National Assembly, to investigate the causes of the bank's difficulties. Although the inquiry is believed to be critical of the French Treasury for its failure to heed warnings about Crédit Lyonnais, it is understood to have identified Mr Haberer as the chief architect of the bank's shortcomings.

Mr Haberer, who was appointed chairman in 1988 by the then socialist government and ousted last autumn by the new conservative administration, is thought to have been accused of mismanagement but cleared of any personal misappropriation of funds.

French press reports suggest that the inquiry criticises Mr Haberer's draconian management style and the failure of his team to make full reports to the state on Crédit Lyonnais's problems. These included its exposure to MGM, the crippled Hollywood movie studio, and to Sasea, the Swiss holding company which subsequently collapsed.

Since the announcement of the rescue package, Mr Haberer has been removed from his state-appointed post as chairman of Crédit National, another French banking group.

A number of his senior executives at Crédit Lyonnais have also left the bank following the arrival last autumn of Mr Jean Peyrelevade as the new chairman.

However Mr Peyrelevade, who orchestrated the rescue, is reported to have clashed with the government over the level of provisions he plans to report for the first half of this year.

Société Générale last week forecast that Crédit Lyonnais, which initially had been expected to break even in 1994, would instead report a net loss of around FFr1bn.

'Upward trend' in the German economy will not come soon enough to affect this year's results

Siemens set to shed a further 7,000 jobs

By Vincent Boland in Prague

Siemens, the German electronics and electrical group, yesterday announced it was cutting a further 7,000 jobs this year. The news came alongside confirmation that annual operating profits were likely to fall by between 10 and 15 per cent.

Mr Heinrich von Pierer, president and chief executive, said that by the end of September the total workforce would be reduced to 385,000. Additional staff from the first-time inclusion of the Osram Sylvania lighting business in the US had masked a reduction of 13,000 jobs, he added, speaking at the company's summer press conference in Prague.

While there were "a number of signs of an upward trend" in the German economy, the effects of the improving business climate would not have an impact on the company's results this year, which ends in September, said Mr von Pierer.

Although new orders for the eight months to the end of May were up 6 per cent at DM56.7bn ($35bn) and sales were 3 per cent higher at DM50.4bn, the increase came entirely from foreign business. Domestic orders and sales were both down.

For Germany in the same period, domestic orders fell 7 per cent to DM22.2bn and sales were down 6 per cent at DM20.8bn. Foreign orders increased 17 per cent to DM34.5bn and foreign sales were 11 per cent higher at DM29.6bn.

Foreign business now accounted for more than 60 per cent of Siemens' total operations, up from less than 55 per cent in the last financial year, said Mr von Pierer. This reflected the more rapid advance of the business in America and South-East Asia compared with Europe.

He said that Siemens expected to achieve the orders and sales targets it set itself at the beginning of the year. It anticipated new orders of DM87bn for 1993-94, up from DM84.1bn last year, and sales of DM84bn, against DM81.6bn. These increases were mostly due to the initial contributions of Osram Sylvania.

Net income remained "under pressure", however, because of continuing price deterioration and weak underlying sales.

Mr Karl-Hermann Baumann, chief financial officer, said operating income this year would fall by between 10 and 15 per cent. He added that this would be offset by an extraordinary gain from the sale of the cardiac pacemaker division, which would be included in fourth-quarter figures.

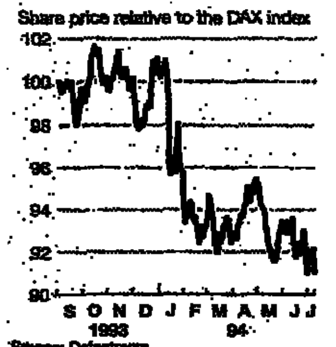
Siemens expected to pay an unchanged dividend. "I think you can say there will not be too much change in either direction," Mr Baumann said.

The group paid a dividend of DM13 per share in the last financial year.

von Pierer: confirmed annual profits are likely to fall 10-15 per cent

Siemens

Share price relative to the DAX index



Source: Datastream

Tomkins rises 50% but shares still languish

By David Wighton in London

Mr Gregory Hutchings, chief executive of Tomkins, yesterday expressed astonishment at the industrial conglomerate's low share price after it announced a better-than-expected 50 per cent jump in pre-tax profits to £257m ($391m). "We win every match and we are still bottom of the league," he said.

He pointed to the 14 per cent increase in earnings per share to 15.1p in the year to April, compared with a UK average of 6 per cent. Yet the shares have underperformed the market by almost 30 per cent since it announced its £990m bid for Ranks Hovis McDougall in October 1992. They rose just ½p to 218p yesterday.

The RHM businesses contributed profits of £102.5m and enhanced earnings per share by "at least" 4 per cent. "We have always delivered to shareholders what we said we would which is what makes the share price so depressing," said Mr Hutchings.

He added that the lowly share rating would not prevent the group taking advantage of acquisition opportunities. "With a very strong balance sheet we could gear up if we saw a major acquisition." He stressed that nothing was being contemplated at present and any large deal would be outside its main businesses.

Dividends rose 16 per cent to 7.38p, after a final payment of 5.3p, which Mr Hutchings said reflected the group's strong cash flow and good growth prospects. "We are very optimistic and excited about the future. We are in the best position we have ever been." He said that the integration of RHM was largely on plan although the delays in the delivery of some capital equipment had pushed back the rationalisation programme. It has spent £23.3m out of the £81.2m provision set up for reorganisation.

Profits from milling and baking rose to £22.1m on sales of £682.2m – compared with a 21-week contribution of £1.4m on turnover of £287.9m the previous year – but return on capital employed was still "unsatisfactory".

Profits from food products rose to £80.4m on turnover of £939.5m, against £28.4m on sales of £374.9m, and Mr Hutchings said there was "a lot more still to come". Profits from the non-food businesses rose 13 per cent to £130.6m on turnover of £1.62bn (£1.32bn). The US housing and housing-related businesses had a second year of "solid growth".

Tomkins generates half its profits in dollars and a hedged rate of $1.59, compared with $1.76m the previous year, added about 4.5 per cent to sterling profits on translation. This year's rate is $1.48, giving it a gain of more than 3 per cent.

The company said the UK was showing some signs of emerging from recession with companies serving the light engineering and housing markets seeing some pick-up. But continental Europe, which accounts for under 5 per cent of sales, remains weak.

Tomkins ended the year with net cash of £156m, after spending £100m on the acquisition of Noma Industries, and shareholders' funds rose to £897.8m (£802.0m). Broker Hoare Govett forecasts profits of £300m this year with earnings up 19 per cent at 17.9p.

Lex, Page 16

Success of Exco offer shows life in UK new issues market

By Simon Davies in London

Exco, the moneybroking arm of the collapsed British & Commonwealth group, yesterday gave a note of encouragement to the lacklustre UK new issues market with the announcement that its public offer was 3.2 times subscribed.

The response to the £23m public portion of Exco's £93m share offer was far more favourable than the highly publicised flotation of venture capital group 3i, which spent £2m on marketing the offer to affluent private investors. The 3i flotation was only 1.1 times subscribed, with less than 20 per cent of the 385,000 individuals who registered for its prospectus putting in applications.

Exco received 9,500 individual applications after spending £200,000 on advertising.

Mr Simon Neathercoat, of Exco's brokers Kleinwort Benson Securities, said: "There were fond memories of the success story of the eighties that Exco was." Exco was acquired by B&C in 1986, after an extremely successful phase on the stock market.

Mr Neathercoat added that "with a good story and a sensible price, the new issue market remains open".

Pricing was certainly an issue for Exco. Some merchant bankers suggested the shares were "given away", but the pricing had to reflect the low esteem in which the moneybroking industry has been held by investors, due to concern about volatility.

Exco shares were offered at 175p, offering a historic price-earnings ratio of 9.5 and a notional yield of 6 per cent. Given the strong cash generation of the industry and the success of Exco's global diversification, investors have clearly been persuaded that the dividend is sustainable.

The issue was also helped by the fact that the Cayzer family's Caledonia Investments, a canny investor, opted to retain its stake.

By comparison, 3i was considered to be relatively aggressively priced, with a discount to net asset value of 13.5 per cent, and a gross dividend yield of 3 per cent.

Baring Brothers, the sponsor, emphasised the importance of the institutional portion of the 3i offer, which was 1.7 times subscribed, but it must have been disappointed that the private investors had failed to deliver.

With this level of demand, Exco shares are expected to show a healthy premium when they start trading on July 19.

Alusuisse to sell lossmaking US aluminium unit

By Frances Williams in Geneva

Alusuisse, the Swiss aluminium, packaging and chemicals group, is to sell its lossmaking US aluminium business, Consolidated Aluminium Corporation (Conalco). The buyer is Ormet Corporation, the fourth-largest producer of primary aluminium in the US.

The sale, for an undisclosed price, marks a further step in Alusuisse's strategy to reduce dependence on aluminium, which is suffering from overcapacity and depressed prices. The weighting of the group's aluminium division has shrunk from more than two thirds of sales in 1988 to an estimated 43 per cent this year.

Analysts are predicting a strong revival in company profits after disappointing results in 1993, when net income slid 31 per cent to SFr83m ($62.6m) on sales of SFr6.2bn.

With the disposal of Conalco, the group's aluminium operations are now centred around the manufacture of high value-added machined products in Europe.

Alusuisse said yesterday it planned to focus its North American activities on expanding its profitable packaging and chemicals businesses.

Conalco employs some 1,400 and has production plants in four US states – Ohio, West Virginia, Tennessee and Mississippi.

It made a loss of $22m last year, on sales 15 per cent lower at $347m.

Soros sells bulk of British Land stake

By Simon Davies in London

Mr George Soros, the international financier, has sold the majority of his Quantum Fund's stake in British Land, the UK property group, for a 35 per cent profit. He has also disposed of the fund's shares in Surrey-based housebuilder Berkeley Group.

The proceeds of the British Land stake are to be ploughed back into British Land Quantum Property Investment Partnership (BLQ), Mr Soros' £500m ($770m) joint venture UK property fund.

The shares were part of a 4.8 per cent stake purchased when the fund was set up. Quantum UK Realty and G. Soros Realty Investors sold 5.3m British Land shares at 402p, compared with their 298p purchase price. They retain 4m shares.

The Quantum Fund also sold 2.48m shares in Berkeley Group which, based on yesterday's closing price of 398p, raised around £9.86m. The Berkeley shares were purchased in January 1993, at below 330p.

Mr Soros and his Quantum Fund will realise £21.3m from the British Land disposal. However, this is to be reinvested in the fund, in addition to the £250m that has already been committed to BLQ.

Mr John Weston Smith, finance director, said British Land would match the additional Soros investment, enabling the fund to invest a further £80m, as it aims to match equity with debt.

The setting up of the Quantum Fund marked a turning point in perception towards the UK property market, and the share price of British Land has reacted accordingly since Mr Soros took his stake. Brokers said it made sense for Mr Soros to focus his investments in the UK property market on the British Land fund.

The fund has so far invested £600m in UK property, and Mr Weston Smith said it was roughly 55 per cent geared.

Lex, Page 16

Victoire reshuffles capital for CU deal

By Alice Rawsthorn in Paris

Victoire, the French insurer, plans to reshuffle its share structure and distribute FFr4.11bn in bonus shares and dividends to shareholders in preparation for its takeover by Commercial Union of the UK.

Commercial Union last month ended months of negotiations by clinching a FFr12.5bn ($2.24bn) deal to buy the bulk of Victoire's interests from Suez, the French holding company that owns 89 per cent of the insurance company.

Before completing the deal Victoire must restructure its equity base and redistribute the proceeds raised by the disposal late last year of its interest in the Vinci insurance group. The buyer was Union des Assurances de Paris (UAP).

The share restructuring will involve doubling the nominal value of Victoire's 22.5m existing shares to FFr200 in a two-for-one exchange.

The value of Victoire's share capital will then be increased to FFr2.73bn from FFr2.25bn by issuing 13 new bonus shares to investors for every 60 shares held.

Victoire's shareholders will also receive a special dividend of FFr1.3bn.

The company will then distribute to shareholders the FFr2.89bn interest in UAP that it received in payment for the Vinci deal.

The news of the Victoire transaction coincides with mounting speculation that Allianz, the powerful German insurer once seen as a prospective buyer of Victoire, is in talks with Crédit Lyonnais, the troubled French bank, over a co-operative venture in France.

Crédit Lyonnais is known to be interested in forging links with a large insurance group following the failure of plans to form a co-operative venture with Assurances Générales de France.

Allianz yesterday declined to comment on German press reports that it had begun talks with Crédit Lyonnais.

Executive bail-out holds TWA off-course

How does an airline lose five top men in a few months? Richard Tomkins investigates

To lose one top executive is unfortunate: to lose two, it might be said, looks like carelessness. How, then, does one describe the loss of five in a matter of months?

Since coming out of Chapter 11 bankruptcy protection at the end of last year, Trans World Airlines, the seventh-biggest US airline, has seen an exodus of senior managers.

In January, it lost a chairman and a vice-chairman; in May, it lost its senior vice-president for marketing; last month, its chief financial officer quit; and last week another vice-chairman resigned.

A favourable interpretation of such a rapid turnover might be that the newly-resurgent company is clearing the decks to make way for fresh talent. Given the company's precarious financial condition, however, it is equally tempting to ask whether it is a case of executives leaving a sinking ship.

Once one of the world's biggest and best-known airlines, TWA first ran into trouble in the 1980s, when losses in the deregulated US market started to outweigh profits from its international operations.

Bad turned to worse when Mr Carl Icahn, the one-time corporate raider, took over the airline in a leveraged buy-out in 1988, adding hundreds of millions of dollars worth of borrowings to the balance sheet. With the airline industry as a whole struggling, TWA was dragged into bankruptcy in 1992 by the cost of servicing its debt.

When the airline emerged from Chapter 11 last November, it was under different ownership. As part of the rescue plan, employees agreed to swap some $660m worth of labour concessions for 45 per cent of the company's shares. The remaining 55 per cent went to the creditors.

TWA also emerged with a management team aimed at accommodating the differing perspectives of its new owners. Mr Glenn Zander, one of the two TWA executives who had been running the company while it was in Chapter 11, was seen by the labour unions as too hard. Mr Robin Wilson, the other, was seen by the creditors as too soft. So, both were made vice-chairmen, and an outsider was appointed above them: Mr William Howard, a 71-year-old airline industry veteran, who became chairman and chief executive.

Unfortunately, this seemingly happy compromise was a spectacular failure. The airline missed its financial targets, squabbles about strategy burst into the open and, just six months after the team's installation, Mr Howard and Mr Zander resigned.

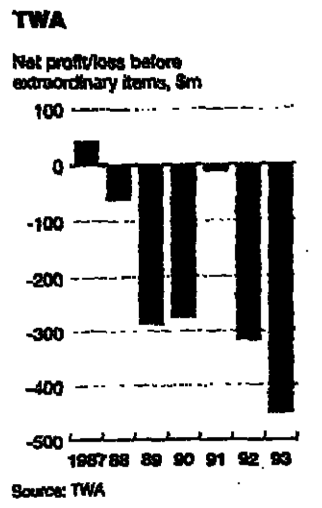
In January, Mr Howard was replaced as chairman by a non-executive member of the board: Mr Donald Craib, a former chairman and chief executive of Allstate Insurance with no previous airline experience.

One of Mr Craib's first decisions was to bring in an experienced airline boss as chief executive: Mr Jeffrey Erickson, the tough-talking chief executive of the upstart US airline Reno Air.

Donald Craib: immediately brought in airline expert

Since joining TWA in April, Mr Erickson's determination to stamp his authority on the airline has seen off the other vice-chairman and two more senior executives. "I am building my own management team, and you can't do that without people leaving," he said.

Hence, the clearing-of-the-decks analogy stands up better than that of the sinking ship. Yet there is no doubt TWA has financial problems. Last week Standard & Poor's, the US credit rating agency, downgraded the airline's senior secured debt to triple C, and revised its ratings outlook on the airline to negative. Mr Philip Baggaley, S&P's airline industry analyst, says the company could run out of cash this winter.



Although TWA has gone a long way towards overcoming the poor reputation for service it earned in the Icahn years, fierce competition from other airlines is preventing it from meeting its revenue targets. And, with one of the highest cost structures in the US airline industry, it is ill-equipped to fight a fares war.

In the quarter to March, TWA incurred net losses of $124.4m. More important, at the end of the quarter it had only $135m in cash. All its credit facilities are drawn and, with virtually all its assets pledged, it cannot raise more funds. Next January, it is due to repay some $190m worth of debt extended by Mr Icahn. Clearly, it will be unable to do so, though equally clearly it will hope to extend or refinance the loans.

If TWA survives the lean winter period, other problems lie ahead. In the middle of next year, its labour concessions expire.

Its airliner fleet, one of the oldest in the US, is long overdue for renewal. Its only hub – St Louis, Missouri – serves a relatively small segment of the US market, and suffers competition from the low-cost Southwest Airlines. Its few remaining transatlantic routes are weak.

TWA is fighting back with an efficiency drive aimed at lopping $135m a year off operating costs.

However, some Wall Street analysts say employee ownership could prevent the company from making the staffing cuts it needs to survive. Nearly all of them rate it as the US airline least likely to be around in five years.

Mr Erickson retorts: "I am here to prove them wrong." However, he does not rule out the possibility that TWA could change a lot in the meantime. Nothing is sacred, he says. Some routes – including the transatlantic ones – could be cut. Others will be added.

"You have to respond to what the marketplace wants," Mr Erickson says. "I think the final chapter in the 15-year saga of US air deregulation is being written now, and the airlines that respond to the marketplace in this final chapter are likely to be around. My job is to make sure we're one of them."

NEWS DIGEST

SHL shows solid growth

SHL Systemhouse, a fast-growing Canadian computer service group, says that margins are improving and profits are recovering quickly, writes Robert Gibbens in Montreal.

Third-quarter revenues were up 24 per cent at C$305m (US$219.4m).

Net profit more than doubled to C$5.9m, or 9 cents a share, from C$2.3m, or 5 cents, a year earlier.

The result brings net profit for nine months to C$16m, or 27 cents a share, up from C$3.9m, or 9 cents, a year earlier, on revenues of C$864m, up 26 per cent.

Mr John Oltman, SHL chairman, said that the company was focusing on improving operating margins further in the short term, while continuing to develop markets in North and South America, Europe and Asia.

Shopping-centre deal

Hammerson Canada, a unit of Hammerson Property Investment of the UK, is paying C$160m (US$115.1m) for three Ontario shopping centres with combined retail space of 1.2m square feet, writes Robert Gibbens.

The seller is Sifton Properties, a family-controlled property holding company.

Hammerson is one of the largest commercial property companies in eastern Canada.

PNG mine review

Mr Roy Shipes, a US-based consultant, has flown to Papua New Guinea's Lihir Island to begin a two-week review of a planned goldmine project there, at the request of the country's mining and petroleum minister Mr John Kaputin, writes Nikki Tait in Sydney.

Development of the mine, which would be one of the largest outside South Africa, has been held up for months by wrangling within the PNG government over how the project should be structured and financed.

Originally, there were hopes that the necessary special mining lease for the project – a joint venture between RTZ of the UK and Niugini Mining, which is controlled by Canada's Battle Mountain – would be granted at the beginning of 1994.

However, the matter became bogged down in the PNG cabinet, with the dispute apparently centring on whether the state-owned Malaysia Mining Corporation should be brought in at an early stage, and what share of the equity should be given to local landowners.

CSR expansion

CSR, the Australian building products and sugar group, is to spend A$30m (US$21.9m) on the construction and development of a raw sugar mill in the Ord River district of Western Australia, writes Nikki Tait.

The mill will be capable of crushing 560,000 tonnes of cane annually, producing 70,000 tonnes of sugar.

LEGAL NOTICES

IN THE MATTER OF JAMES FERGUSON HOLDINGS PLC
AND IN THE MATTER OF CENTURY INDUSTRIAL SERVICES LTD
AND IN THE MATTER OF CARD FINANCE LIMITED
AND IN THE MATTER OF FERGUSON COMMUNICATIONS LTD
AND IN THE MATTER OF DATA ASSISTANCE LIMITED
AND IN THE MATTER OF EASPRINT LIMITED
AND IN THE MATTER OF JAMES FERGUSON FINANCE LTD
AND IN THE MATTER OF LASER IMPRESSIONS LIMITED
AND IN THE MATTER OF FERGUSON LEASING LIMITED
AND IN THE MATTER OF FERGUSON MEKOM LIMITED
AND IN THE MATTER OF MERSEYSIDE FINANCE LIMITED
AND IN THE MATTER OF NEWBROOK ESTATES LIMITED
AND IN THE MATTER OF PROPERTY PENSIONS (HOLDINGS) LTD
AND IN THE MATTER OF JAMES FERGUSON SECURITIES LTD
AND IN THE MATTER OF VICTORIA APPOINTMENTS AND CONTRACTS LIMITED
AND IN THE MATTER OF THE INSOLVENCY ACT 1986

NOTICE IS HEREBY GIVEN that the Joint Liquidators of the above-named companies [illegible]

Dated this 1st day of July 1994
MA Shaw
Joint Liquidator

The Insolvency Act 1986
INDUSTRIAL CONTROL EQUIPMENT (UK) LIMITED
(In Liquidation)
[illegible]

SOUTHAMPTON (EASTLEIGH) AIRPORT DEVELOPMENTS LIMITED
[illegible]

No. 004140 of 1994
IN THE HIGH COURT OF JUSTICE
CHANCERY JUSTICE
IN THE MATTER OF ARCADIAN INTERNATIONAL PLC
- and -
IN THE MATTER OF THE COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that a Petition was presented to Her Majesty's High Court of Justice, Chancery Division on 28th June 1994 for the confirmation of the reduction of the share premium account of the above named Company by £1,750,000.

AND NOTICE is further given that the said Petition is directed to be heard before Mr Registrar Buckley at the Royal Courts of Justice, Strand, London WC2A 2LL on Wednesday the 20th day of July 1994.

Any Creditor or Shareholder of the said Company desiring to oppose the making of an Order for the confirmation of the said reduction of share premium account should appear at the time of the hearing in person or by Counsel for that purpose.

A copy of the said Petition will be furnished to any person requiring the same by the undermentioned Solicitors on payment of the Regulated Charge for the same.

Dated the 12th day of July 1994
CLIFFORD CHANCE
200 Aldersgate Street
London EC1A 4JJ
Ref: KO
Solicitors to the Company

No. 004160 of 1994
IN THE HIGH COURT OF JUSTICE
CHANCERY JUSTICE
IN THE MATTER OF HAWTAL WHITING HOLDINGS plc
- and -
IN THE MATTER OF THE COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that a Petition was presented to Her Majesty's High Court of Justice, Chancery Division on 28th June 1994 for the confirmation of the reduction of the share premium account of the above named Company by [illegible]

AND NOTICE is further given that the said Petition is directed to be heard before Mr Registrar Buckley at the Royal Courts of Justice, Strand, London WC2A 2LL on Wednesday the 20th day of July 1994.

Any Creditor or Shareholder of the said Company desiring to oppose the making of an Order for the confirmation of the said reduction of share premium account should appear at the time of the hearing in person or by Counsel for that purpose.

A copy of the said Petition will be furnished to any person requiring the same by the undermentioned Solicitors on payment of the Regulated Charge for the same.

Dated the 12th day of July 1994
CLIFFORD CHANCE
200 Aldersgate Street
London EC1A 4JJ
Ref: KO
Solicitors to the Company

No. 004053 of 1994
IN THE HIGH COURT OF JUSTICE
CHANCERY DIVISION
IN THE MATTER OF M.Y. HOLDINGS plc
- and -
IN THE MATTER OF THE COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that a Petition was presented to Her Majesty's High Court of Justice, Chancery Division on 24th June 1994 for the confirmation of the cancellation of the share premium account of the above named Company of [illegible]

AND NOTICE is further given that the said Petition is directed to be heard before Mr Registrar Buckley at the Royal Courts of Justice, Strand, London WC2A 2LL on Wednesday the 20th day of July 1994.

Any Creditor or Shareholder of the said Company desiring to oppose the making of an Order for the confirmation of the said cancellation of share premium account should appear at the time of the hearing in person or by Counsel for that purpose.

A copy of the said Petition will be furnished to any person requiring the same by the undermentioned Solicitors on payment of the Regulated Charge for the same.

Dated the 12th day of July 1994
CLIFFORD CHANCE
200 Aldersgate Street
London
EC1A 4JJ
Ref: KO
Solicitors to the Company

INTERNATIONAL COMPANIES AND FINANCE

Bata brings in outsider as its chief executive

By Bernard Simon in Toronto

Bata, the family-owned footwear group, has brought in an outsider as chief executive for the first time in its 100-year history.

Mr Stanley Heath, executive vice-president of Nabisco International, the international food arm of RJR Nabisco, the US tobacco and consumer products group, will move to Toronto next month as Bata's president and chief executive.

Mr Heath's appointment coincides with the retirement of Mr Thomas Bata Sr as chairman. Mr Bata, who rebuilt the family shoe empire in Canada after leaving his native Czechoslovakia in the early 1930s, ahead of the Nazi occupation, will be 80 in September.

Mr Bata will be succeeded as chairman by his son Tom. The younger Bata has been chief executive for the past nine years, but is considered a less forceful and effective manager than his father.

Bata owns about 40 shoe factories and more than 6,000 shops around the world, selling 300m pairs of shoes a year. The company has never disclosed revenues, profits or market share, and members of the Bata family have generally confined their public profile to philanthropic and other non-business interests.

Mr Bata Sr has played a prominent role in recent years in the reconstruction of the Czech and Slovak economies. The family business was one of the biggest in pre-war Czechoslovakia, but was taken over by the communists in the late 1940s.

Mr Heath, aged 56, is an Englishman who is fluent in French and Spanish and has a reputation as a bright and easy-going manager. His biggest challenges are to revive morale among Bata's senior management, and strengthen the company's presence in fast-growing markets, especially eastern Europe and south-east Asia.

Bata has faced increasing competition in recent years from low-cost shoe factories in countries where it has had little presence, such as China and Taiwan.

It has also sought to break into the countries of the former Soviet Union, which are viewed by Mr Bata Sr as one of the few remaining vacuums in the international shoe business.

Dell withdraws from retail distribution

By Louise Kehoe in San Francisco

Dell Computer, the US personal computer manufacturer, is withdrawing from the retail stores distribution channel in order to focus on direct sales via mail and telephone.

It said retail sales "have never been more than 10 per cent of our business" and the company had been winding down its retail distribution over recent months. Retail sales are expected to contribute less than 2 per cent of revenues in the current quarter, it added.

The move reflects intense competition among the largest US PC companies for shelf space at computer "superstores" and Dell's struggle to increase profit margins after losses in the last fiscal year.

For the year ending January 31, Dell reported a net loss of $35.8m, or $1.06 per share, on sales of $2.87bn. Dell is the fifth-largest PC manufacturer, according to Dataquest, a market research company.

Dell said direct sales "offer the opportunity for more robust profit margins" and play to Dell's strengths. The Texas-based company pioneered mail and telephone sales of personal computers in the late 1980s.

Eli Lilly to test new formula

Planned purchase comes as the US drugs industry is reshaping, write Paul Abrahams and Richard Waters

Eli Lilly's planned purchase of PCS, a pharmacy benefits management company which is part of McKesson, the US healthcare group, looks set to complete the reshaping of the US retail drugs distribution business.

If finalised, it will bring to three the number of benefit managers sold in less than a year, for a total consideration of around $13bn (Merck paid $6.7bn for Medco last autumn, while SmithKline Beecham has agreed to buy Diversified Pharmaceutical Services for $2.3bn).

Two others, Caremark and Value Health, have formed close ties of their own with drugs manufacturers in recent months, though they have stopped short of outright sale.

In a low-growth US drugs market, manufacturers hope that control of distribution will help them gain market share.

Pharmacy benefits managers fill out prescriptions for big buyers of healthcare, such as the Blue Cross/Blue Shield organisations which provide health coverage at state level to many Americans, or companies which pay for their workers' healthcare benefits.

Through their formularies – lists of recommended drugs – they exercise considerable influence over the drugs patients buy.

According to figures provided by the distributors, their influence on drug buying habits is growing fast. The five mentioned above claim more than 75m people on their formularies, accounting for nearly one in three Americans. PCS, the biggest by this measure, claims 30m people.

It also has one of the fastest-growing customer lists (the number of people on its formularies has grown around 50 per cent in the past year). Much of this growth has come from converting existing customers to the formulary approach, though PCS has also won some big new contracts: this year, for instance, it added nearly 1m people with the BlueCross/Blue Shield of North Carolina.

Eli Lilly probably needed to acquire a pharmacy benefit manager more than most pharmaceuticals companies. Its sales growth during the first quarter this year slowed to only 3 per cent, a far cry from the heady double-digit growth of the early 1990s, and certainly worse than most of its competitors.

The company has been especially hit by the increasingly acute competitive environment in the US. Eli Lilly's most important markets – antibiotics, anti-depressants and ulcer therapies – have been undermined by price competition. Bulk purchasers of medicines have in effect made such products commodities.

For example, Prozac, Eli Lilly's top-selling anti-depressant, was the first central nervous system medicine to achieve sales of more than $1bn. Although Prozac was first into the market, a raft of competitors such as Pfizer's Zoloft, SmithKline Beecham's Paxil, and American Home Product's Effexor, have undermined the drug's growth. Allegations by the Church Of Scientology that the medicine can cause suicidal and violent behaviour have also affected volumes.

Eli Lilly has also performed poorly in the increasingly difficult antibiotic market.

Ceclor, the group's top-selling antibiotic, lost its US patent protection in 1992, and posted sales down 9.5 per cent to $515m. The successor drug, Lorabid, has proved disappointing.

Finally, Axid, the company's fourth most important medicine, continues to compete in an increasingly turbulent anti-ulcer market. Tagamet, SmithKline Beecham's competitor product, lost US patent protection in May. Early data suggest Axid's share of new prescriptions is falling.

Eli Lilly has responded by increasing its research and development investment to create new drugs that would be less susceptible to price competition. R&D investment rose 10 per cent to $955m in 1993, and by an estimated 7 per cent to $1.020bn this year.

However, there are few new drugs in the pipeline, according to analysts.

The theory put forward yesterday by Mr Randall Tobias, Eli Lilly's chairman and chief executive, is that PCS Health Systems can offset this increasingly difficult environment.

It remains to be seen, though, whether the pharmacy benefits managers can sustain the difficult balancing act of pushing one manufacturer's products while convincing their customers that they are providing the best drug at the best price to each patient.

PCS yesterday said its acquisition by Eli Lilly would make no difference to the selection of drugs on its formulary, for instance – though such a stance seems disingenuous, given Eli Lilly's willingness to pay $4bn in cash for the distributor.

Judging by Wall Street's initial reaction yesterday, Eli Lilly is paying too much to secure this line of distribution.

The slide in its share price and the prospect of a ratings downgrade reflect a general belief the deal will weaken the company financially and fail to produce sufficient sales growth to justify the price tag.

Some of the cash should come from sales of businesses. Eli Lilly said it was continuing with its plan to concentrate on pharmaceuticals by floating five of its nine medical devices businesses during the fourth quarter this financial year. The remaining operations will be sold separately. However, the company still expects to borrow some $2.5bn to finance its acquisition.

Delta to shed 4,500 more full-time jobs

By Richard Tomkins in New York

Delta Air Lines, the third biggest US airline, yesterday announced it was cutting 4,500 full-time jobs from its airport customer service division during the next 12 months.

The cuts are part of a drastic restructuring, announced in April, under which Delta hopes to cut $2bn a year from operating costs in an attempt to overcome competition from low-cost US carriers, such as Southwest Airlines.

Delta's airport customer service division is responsible for baggage and cargo handling, aircraft refuelling, customer service at the ticket counter and some administrative functions. It employs 21,000 worldwide.

The airline aims to achieve a 20 per cent cut in the division's workforce by requiring staff to work more flexible hours, including split shifts; requiring them to do other people's jobs as well as their own when they are not busy; making more use of part-time workers; and subcontracting work to outside companies.

Delta said it hoped to achieve the job cuts through a combination of voluntary severance, leave of absence and early retirement. Compulsory redundancy would be used if necessary.

The cuts follow Delta's announcement last month that it was to shed 2,500 jobs from its technical operations division, which is responsible for maintenance.

Together, the announcements take the company halfway towards its targeted cut of between 12,000 and 15,000 jobs from the workforce of 73,000 in the next three years.

Delta's goal is to reduce costs per available seat mile from 9.26 cents last year to 7.5 cents by 1997. That figure will be almost on a par with Southwest's 7.2 cents.

Delta has already shed more than 7,400 jobs since June 1992, and last February it cut employees' pay by 5 per cent. Only its 8,500 pilots belong to a union, so it has largely avoided labour strife to date.

Weak prices behind dip in Alcoa of Australia profit

By Bruce Jacques in Sydney and Laurie Morse in Chicago

Net profit at Alcoa of Australia, the integrated aluminium company, almost halved in the six months to June, reflecting lower sale prices and a stronger Australian currency.

The company – part of a merger proposal between its two largest shareholders, Aluminium Company of America and Western Mining Corporation, the Australian mining group – yesterday reported a decline in earnings to A$124.7m (US$91.60m) from A$258.4m.

Total revenue fell 7.7 per cent, to A$1.00bn from A$1.09bn.

The company reduced its total dividend payout to A$120m from A$180m and its capital expenditure to A$63.2m from A$85.2m in the half-year.

Directors said production cuts at the group's smelters caused lower sales of aluminium ingots, and gold sales volumes were hit by lower ore grades.

But production costs were lower and sales volumes increased for both alumina and chemicals.

The result followed a tax provision of A$63.8m, down from A$100.8m previously, and depreciation of A$76.8m, against A$73.4m last time.

The previous year's result included a A$59.7m abnormal tax gain.

Meanwhile, Alcoa, the US aluminium producer, saw earnings rise to $45.4m, or 50 cents a share, in the second quarter as the company gained from cost-cutting and a steady rise in aluminium prices.

Earnings amounted to $35.3m, or 40 cents a share, in the comparable 1993 quarter.

The company, which is the world's biggest aluminium group, said sales rose to $2.5bn in the quarter, up slightly from $2.4bn a year ago. The revenue increase came despite a slight drop in aluminium shipments, which fell to 651,000 tonnes from 670,000 tonnes in the same 1993 quarter.

For the first six months, Alcoa made a net loss of $32.9m, or 72 cents a share, on sales of $4.7bn.

The company fell heavily into the red in the first quarter when charges relating to production cuts were taken.

DHL Express seeks minority stake in Philippine Airlines

By Jose Galang in Manila

DHL Worldwide Express, the international express mail courier, is negotiating to buy a minority interest in Philippine Airlines (PAL), the country's flag carrier.

DHL is negotiating for a bloc of shares in the airline currently held by three state institutions: Philippine National Bank, Development Bank of the Philippines, and AFP Retirement and Separation Benefits System.

The three institutions own 20 per cent of PR Holdings, the consortium that acquired 67 per cent of PAL for 9bn pesos ($334m) in a public offer in January 1992. The 20 per cent holding in PR Holdings represents a 13 per cent ownership of PAL.

DHL's interest in PAL was apparently prompted by the 1992 decision of rival Federal Express to establish a hub for its Asian operations at the Subic Bay freeport zone, the former US naval base. A tie-up would also expand DHL's involvement in the airline industry. The express courier company, based in Brussels, already has equity interests in Guam-based Continental Air Micronesia.

On the other hand, PAL stands to gain, according to industry experts, from DHL's business in cargo-handling in the US.

A government official involved in the negotiations said there was a good chance of an agreement being reached, given the "mutual benefits" that it can provide to both groups.

An earlier bid by Brunei Investment Agency, which is described as an investment entity of the Sultan of Brunei, failed to take off because the group also owns a majority stake in Malaysian Airlines, which PAL regards as a competitor in regional traffic.

Gold Fields falls after production setbacks

By Mark Suzman in Johannesburg

Gold Fields of South Africa reported a decline in after-tax profit to R392.3m ($108.6m) for the June quarter, from R441.1m in the previous quarter. The fall, which came in spite of a higher gold price received, was due largely to election-related work stoppages and public holidays which depressed production.

Tons milled dropped to 3.19m from 3.31m in the March quarter, while gold production dipped to 29,721kg from 30,982kg. Working costs per kilogram rose to R35,265 from R32,410 and working profit declined to R543.3m from R582.2m, largely as a result of the lower throughput. Capital expenditure rose R70m to R203m.

Mr Alan Munro, executive director, said that it had been an "eventful quarter" and that the six public holidays had depressed production while increasing working costs because of extra overtime pay.

Of the group's mines, Kloof performed best. In spite of a drop in ore milled, due to a 10-day work stoppage in May, it was able to take advantage of a higher yield and better gold price to maintain pre-tax profit at R194.5m, close to the previous quarter's R194.4m.

Driefontein, the group's other big producer, was also affected by industrial action. However, a continuation of abnormally high yields at its East Driefontein division meant pre-tax profit dipped only slightly, to R396.8m from R405.8m in March.

However, the group's two smaller mines had a harder time. Although it managed to increase tonnage, a lower yield meant Doornfontein reported a R12.6m loss on the quarter following a R4.5m profit previously, although this figure was distorted by a R6m payout following a court action by *former employees*.

Deelkraal's after tax profit was up at R15.7m from R15.67m, but this was largely due to a R8m tax credit, and pre-tax profit was sharply down at R9.1m from R21.1m.

Reliance in the race for Indian diamond contract

By Shiraz Sidhva in New Delhi

Reliance Industries, the Indian petrochemicals and textiles conglomerate, yesterday said it was one of five contenders chosen by the Indian government to explore and develop potential diamond mines in the central Indian state of Madhya Pradesh, a traditional diamond mining area.

De Beers, the international diamond group, was among the bidders which made presentations to the state government last week. The contract is likely to be awarded later this month, and the successful bidder is expected to spend Rs1.5bn (US$48m) on the exploration and development of diamond deposits.

Reliance, India's largest private sector company, has also bid for a facility to produce methane gas from coal in Mehsana district, in Gujarat state. The company will spend Rs150m for the initial exploration required, if its bid is successful.

The Indian government recently liberalised the country's coal, gold and other mining industries. They were formerly under the tight control of the government.

Reliance's forays into mining follow its successful bid earlier this year to develop three medium-sized oil and gas fields off India's west coast together with Enron, the US power company. Reliance's 9m tonne crude petroleum refinery is being set up in nearby Jamnagar at a cost of Rs51.42bn, which was raised through an ambitious public issue last year.

Reliance also hopes to enter the recently liberalised Indian telecommunications industry.

The company has proposed to the government that it will build and operate a nationwide telecommunications network, providing 10m new telephone lines in the next decade, rural telecoms services and public call offices.

The government is still in the process of finalising its telecoms policy.

Reliance yesterday declared its audited results for the year ended March 31 1994, saying it had established a record total income of Rs54.61bn. The company reported a net profit of Rs5.76bn on sales of Rs53.46bn, compared with last year's profit of Rs3.22bn on sales of Rs41.09bn.

A spokesman for the company said Reliance was now "India's largest corporation in terms of sales, operating profit, cash profit, net profit, net worth and assets".

The company's directors have recommended a dividend of 51 per cent for the year, constituting a dividend payout of Rs1.39bn. The dividend, the largest in the private sector, will be shared by the company's 2.4m shareholders in India and abroad.

Brambles buys Dutch group

Brambles Industries, the Australian transport group, has bought the industrial services business of Nilo Holdings, *the diversified Dutch* industrial group, for an undisclosed sum, writes Bruce Jacques in Sydney.

The Nilo Holdings unit has annual sales of around A$20m (US$14.7m).

El Al income plummets

El Al, Israel's state-owned airline, reported net profits of $9.9m for 1993 compared with 1992 profits of $30.5m for the previous year – a decline of 67 per cent, a statement released by the company said, Reuter reports from Jerusalem.

Company officials attributed the sharp downturn in profits to increased competition, which they believed would continue into 1994.

Regarding prospects for the current year, Mr Rafi Harlev, president of the airline, said: "1994 promises to be a more challenging year for El Al than last year, as competition in the Israeli market has grown considerably and the government has announced plans to privatise the airline."

Good second-half growth boosts Taiwanese bank

By Laura Tyson in Taipei

Hua Nan Commercial Bank, one of Taiwan's three main government-owned banks dominating the local market, posted preliminary pre-tax earnings of NT$6.4bn (US$239m) for the fiscal year ended June 30.

This was an increase of 21 per cent from a year earlier. However, analysts cautioned that most of the growth had been in the second half of 1993, while the first *half of* this year had been stagnant due to slower loan growth and increasing pressure on interest rate spreads.

The bank also reported revenues of NT$55.8bn, up 4.9 per cent from 1993.

Taiwan's 16 commercial banks set up since 1992 are aggressively expanding, which will make it increasingly difficult for the three state-run commercial banks to build their loan portfolios, analysts said.

INTERNATIONAL CAPITAL MARKETS

US Treasuries fall in wake of weaker dollar

By Patrick Harverson in New York and Conner Middelmann in London

US Treasury prices fell across the maturity range yesterday morning in the wake of higher commodities prices and another decline in the dollar.

By midday, the benchmark 30-year government bond was down $\frac{7}{32}$ at $83\frac{1}{32}$, yielding 7.713 per cent. Prices were also weaker at the short end of the market, down $\frac{1}{32}$ at 99¼, yielding 6.255 per cent.

In the absence of fresh economic statistics, all eyes were on the dollar when the market opened yesterday, and it was a dollar that continued to weaken against other major currencies.

It was not long before bonds began to slip in the dollar's wake, as the currency dropped to a new post-1945 low against the yen and below DM1.54 against the D-Mark.

The decline in the dollar increased the likelihood that the Federal Reserve would raise interest rates, partly to support the dollar but also to slow the economy's growth, traders said.

A rise in commodities prices further undermined bonds, although the increase in the Commodity Research Bureau's closely-followed index was attributed by analysts to a surge in coffee prices.

■ As the dollar continued to tumble, portfolio shifts into Europe's safe havens out of US Treasuries bolstered European bond markets.

"After the G7 failed to offer a package in support of the dollar, there now seems to be less danger in allocating funds to Europe," said Mr Chris Anthony, head of fixed interest research at Hoare Govett.

GOVERNMENT BONDS

While some traders reported large shifts in cash bonds by institutional investors, others said cash activity remained thin, with most of the action taking place in the futures pits. This spurred talk that hedge funds, which are often active in the futures markets, were behind some of the buying.

Over the last two trading sessions, European bonds have shrugged off sharp declines in US bonds. "The markets' resilience on Friday and yesterday has reawakened the issue of decoupling between US and European yields," noted Mr Stephen Dulake, bond strategist at PaineWebber in London.

However, he added that "we haven't seen this uptrend confirmed by investor sponsorship, and I feel there are still many reasons to be cautious."

Mr Dulake said it was unlikely that European bond yields could fall on a sustainable basis unless US bonds recover or at least stabilise.

Several key US statistics are due this week, and "there's a strong risk that further declines in the US could undermine European bonds", he warned.

■ French bonds rose sharply yesterday, outperforming their German counterparts after underperforming them last week. The September notional French government bond future on Matif rose by 1.12 points to 115.68.

Sentiment was boosted by positive data, showing June inflation unchanged at 1.8 per cent year-on-year, and by foreign buying, traders said. Moreover, last week's successful bond auction has lent the market a healthier tone, a dealer said.

■ UK gilts also had a strong day, boosted by buoyant continental European markets and overseas investor buying. The September long gilt futures contract on Liffe rose by $\frac{11}{16}$ points to 101¾.

The market was further cheered by a Gallup report of leading UK investment funds for Smith New Court, which showed that many fund managers are becoming increasingly bullish about gilts and view the market's recent weakness as a buying opportunity.

■ German government bonds also benefited from the flight to safety by investors. The September bund futures contract on Liffe rose by 0.83 points to 93.32.

Traders brace themselves for a rush of new issues

By Tracy Corrigan

Traders are bracing themselves for a rush of new issues this week, despite continuing nervousness in the world's government bond markets.

To start the week, Italy's $4bn offering of floating-rate notes in dollars, D-Marks and yen was officially launched, and is due to be priced today.

The $1.5bn portion denominated in US dollars will have a discounted margin of 11 to 13 basis points over Libor, while the D-Mark tranche, totalling DM1.25bn, will be priced to give a discounted margin of 12 to 14 basis points over Libor.

The smaller size and more generous indicated pricing of the D-Mark portion reflects the weaker demand for D-Mark FRNs following last week's large offering by Portugal.

In order to entice investors, the first coupon will be set over six-month rather than three-month D-Mark Libor, because many investors expect rates to fall within six months. However, dealers said there is still some way to go before the issue is fully placed.

The yen tranche, the largest of the three at Y175bn, will be priced at 8 to 10 basis points over Libor. The larger size and tighter pricing of the yen tranche reflects the strength of demand, mainly from Japan where investors still have a lot of cash to invest in the market, according to one of the lead managers.

INTERNATIONAL BONDS

That tranche has already been exhausted, dealers said. "The easiest sales were into Japan, which is not surprising given the current strength of the yen," said one trader.

All three tranches will pay ⅛ point over Libor, but their issue prices will differ.

Also in the yen sector, the Kingdom of Spain launched a Y150bn issue of 10-year bonds, priced to yield 25 basis points over the comparable Japanese government bond yield, via Nikko Europe.

Dealers said the fixed-rate offering was targeted at a totally different group of investors, so the issue did not compete for attention with Italy's floating-rate transaction.

However, the 10-year maturity of the Spanish deal proved a deterrent for some investors, given the recent bond market volatility. In addition, there is some concern about the volume of paper in the yen sector.

As well as a spate of smaller offerings last week and yesterday, Crédit Foncier de France is expected to launch a Y75bn to Y100bn deal, also maturing in 10 years, later this week.

However, dealers said the Japanese are still keen buyers of yen assets at the right price. The yield spread on the Spain issue widened by one basis point to 26 basis points, according to lead manager Nikko.

Still to come in the dollar sector are global offerings of $1bn to $1.5bn for Finland today and $1.5bn for Freddie Mac, the US agency, by Wednesday.

Dealers said sales of these transactions are likely to be skewed towards the US as European investors could be discouraged by the continued weakness of the dollar.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book runner
US DOLLARS							
Republic of Italy‡	1.5bn	(a)	(b)R	Jul.1999	0.15R	-	Merrill Lynch/ UBS
Nan Ya Plastics Corp.(g,h)§	350	1.75	100.00	Jul.2001	2.50	-	UBS
Formosa Chem. & Fibre(g,i)§	250	1.75	100.00	Jul.2001	2.50	-	UBS
Orion Electric Co.(c,e)§	50.5	(¼-1)	100.00	Dec.2009	2.50	-	Daewoo Secs.(Europe)
YEN							
Republic of Italy‡	175bn	(a)	(b)R	Jul.1999	0.15R	-	Merrill Lynch/Nomura Intl.
Kingdom of Spain	150bn	4.625	98.58R	Jul.2004	0.325R	+25(JGB 170)	Nikko Europe
DSL Bank	10bn	3.40	100.00	Aug.1997	undisc.	-	Paribas Capital Markets
Norddeutsche Landesbank(e)	10bn	3.10	100.1575	Jan.1997	0.1875	-	Fuji International Finance
Eldanshe Co.(d,e)§	5bn	(¼-⅛)	100.00	Sep.1999	2.50	-	Nomura International
Finnish Export Credit(e)	5bn	3.10	100.00	Feb.1997	undisc.	-	Paribas Capital Markets
D-MARKS							
Republic of Italy‡	1.25bn	(a,c)	(b)R	Jul.1999	0.15R	-	Deutsche Bank/Merrill Lynch
ITALIAN LIRE							
General Electric Capital Corp.	100bn	10.125	101.305	Sep.1997	1.375	-	Credito Italiano
SWISS FRANCS							
Hoskiden Co.(d)++§	150	0.125#	100.00	Sep.1998	-	-	Daiwa Secs.Bank (Switz.)
Osaw Co.(d)++§	100	0.125#	100.00	Sep.1998	-	-	Nomura Bank (Switz.)
Electricité de France	100	5.125	102.125	Aug.1998	-	-	Swiss Bank Corp.

Final terms and non-callable unless stated. The yield spread (over relevant government bond) at launch is supplied by the lead manager. ++Private placement. §Convertible. ‡Floating rate note. #Semi-annual coupon. R: fixed re-offer price; fees are shown at the re-offer level. a) 3-mth Libor +⅛%. b) 1st coupon 6-mth Libor. [illegible] 12-14bp [illegible] 4 yrs of [illegible] 21/9/95 [illegible] 31/3/95 [illegible] 31/5/95 [illegible] subject to [illegible]

Hindalco prices global offering

By Tracy Corrigan

Hindalco, India's largest private-sector producer of aluminium, has priced its $100m offering of global depositary receipts (GDRs).

The Hindalco GDRs were priced at $24, compared with a local closing price on Thursday of Rs825 ($26.26), which represents a discount of 8.5 per cent. The GDRs are currently trading at $25, according to lead manager Lehman Brothers.

The deal is one of a handful of offerings by Indian companies to have been completed since the Indian government was forced in May to postpone a planned $1bn issue by Videsh Sanchar Nigam (VSNL), the state-controlled telecommunications monopoly, when investors balked at the proposed pricing.

Since then, most deals have been priced at a discount of 5 to 15 per cent below the market rate.

Also in the pipeline is a $100m issue of GDRs plus warrants for Tata Engineering and Locomotive Company (Telco), via CS First Boston. A number of other deals are planned, but dealers said that only specialist fund managers are currently buying paper.

● The National Stock Exchange, which opened for business in Bombay last week, has given a new lease of life to the Indian debt market, writes Naazneen Karmali in Bombay.

Since its launch, the NSE has recorded transactions worth Rs300m, a rather insignificant amount compared with the Rs2bn of deals traded daily by stockbrokers over the telephone.

However, Dr R.H. Patil, NSE's managing director, estimates that daily volume will be in the region of Rs5bn by year-end.

Set up at a cost of Rs250m, the NSE has been promoted by a consortium of insurance companies, financial institutions and commercial banks.

Budapest exchange plans forint interest futures

The Budapest Commodities Exchange (BCE) will introduce trading in forint-denominated interest rate futures in October, the exchange's head said, Reuter reports from Budapest.

The futures are expected to be for three months, with six-month and nine-month versions to be introduced at a later date, said Mr Szergej Keresztesi, chief executive of Arutozsde, which operates the exchange.

Because of uncertainty about the central bank's interest rate policy and future inflation, setting medium-term rates is a risky exercise for Hungarian banks, Mr Keresztesi said.

However, interest rate futures will allow banks and businesses to hedge themselves against the uncertainty, he added.

"[With the introduction of the futures] the risk will disappear for the banks ... and for the general population as well," he told reporters.

The smallest underlying amount of a contract will be Ft1m. Purchases on margin will be allowed. Settlement will be in cash.

The new contracts are the latest innovation from the BCE, which now trades grain, meat and foreign exchange contracts.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		9.000	09/04	95.2700	-1.050	9.74	9.65	8.85
Belgium		7.250	04/04	85.5000	+1.510	7.92	7.97	7.90
Canada*		6.500	06/04	82.0500	-0.350	9.32	9.31	8.78
Denmark		7.000	12/04	90.7500	+0.230	8.35	8.50	8.08
France	BTAN	6.000	05/98	103.6900	+0.400	6.90	6.87	6.77
	OAT	5.500	04/04	86.8500	+1.040	7.44	7.55	7.47
Germany	Treuhand	6.750	05/04	98.4700	+0.540	6.97	7.05	7.00
Italy		8.500	01/04	88.2600	+0.360	10.49†	10.50	10.04
Japan	No 119	4.800	06/99	104.9930	-0.460	3.81	3.52	3.52
	No 164	4.100	12/03	98.0640	-0.360	4.39	4.25	4.23
Netherlands		5.750	01/04	92.1000	+0.840	6.91	7.05	7.12
Spain		8.000	05/04	83.6000	+1.000	10.77	10.81	10.08
UK Gilts		6.000	08/99	91-13	+17/32	8.10	8.26	8.24
		6.750	11/04	88-30	+24/32	8.36	8.58	8.50
		9.000	10/08	104-26	+32/32	8.41	8.60	8.63
US Treasury*		7.250	05/04	98-24	-8/32	7.45	7.32	7.07
		6.250	08/23	83-02	-8/32	7.72	7.61	7.35
ECU (French Govt)		6.000	04/04	86.6500	+0.890	8.02	8.04	7.91

London closing, *New York mid-day. Yields: Local market standard.
† Gross (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. Source: MMS International

US INTEREST RATES

Lunchtime		Treasury Bills and Bond Yields			
Prime rate	7¼	One month	4.26	Two year	6.26
Broker loan rate	5¾	Two month	4.40	Three year	6.58
Fed.funds	4¼	Three month	4.53	Five year	6.88
Fed.funds at intervention	-	Six month	5.04	10-year	7.44
		One year	5.58	30-year	7.71

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	114.48	115.68	+1.12	115.82	114.44	125,920	119,342
Dec	113.66	114.88	+1.16	114.90	113.86	1,386	13,168
Mar	112.94	114.16	+1.16	113.90	112.94	102	1,767

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	Calls Aug	Calls Sep	Calls Dec	Puts Aug	Puts Sep	Puts Dec
114	-	2.70	2.90	0.51	1.12	-
115	1.32	2.00	2.42	0.73	1.41	2.60
116	0.86	1.50	1.90	-	1.86	-
117	0.40	1.01	-	1.80	-	-
118	0.14	0.61	1.00	-	2.95	-

Est. vol. total, Calls 28,111 Puts 34,437 . Previous day's open int., Calls 333,189 Puts 368,120.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	92.23	93.32	+0.83	93.41	92.21	131645	146036
Dec	91.80	92.63	+0.77	92.58	91.80	1186	8334

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	Calls Aug	Calls Sep	Calls Oct	Calls Dec	Puts Aug	Puts Sep	Puts Oct	Puts Dec
9300	0.62	1.34	1.31	1.57	0.50	1.02	1.65	1.94
9350	0.55	1.07	1.07	1.34	0.73	1.25	1.94	2.21
9400	0.31	0.79	0.89	1.15	0.99	1.47	2.26	2.52

Est. vol. total, Calls 16622 Puts 22666. Previous day's open int., Calls 249834 Puts 228838

■ NOTIONAL MEDIUM TERM GERMAN GOVT. BOND (BOBL)(LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	-	98.55	+0.72	-	-	0	78

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	102.80	103.30	+0.05	103.43	102.88	28690	62144
Dec	102.00	102.10	-0.15	102.00	102.00	5	110

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	Calls Sep	Calls Dec	Puts Sep	Puts Dec
10300	2.29	2.90	1.99	3.80
10350	2.02	2.68	2.22	4.08
10400	1.78	2.48	2.48	4.38

Est. vol. total, Calls 331 Puts 468. Previous day's open int., Calls 30168 Puts 29462

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	88.99	88.53	+1.54	88.55	88.99	51,322	104,886
Dec	-	85.70	-	-	-	10	13

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	100-29	102-00	+0-30	102-08	100-29	53655	112722
Dec	-	101-00	+0-30	-	-	0	824

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	Calls Sep	Calls Dec	Puts Sep	Puts Dec
102	1-55	2-49	1-55	3-49
103	1-25	2-23	2-25	4-23
104	1-00	2-00	3-00	5-00

Est. vol. total, Calls 5186 Puts 2763. Previous day's open int., Calls 60036 Puts 49667

Ecu

■ ECU BOND FUTURES (MATIF)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	82.42	83.26	+0.84	83.48	82.42	1,676	5,862
Dec	-	82.92	+0.84	-	-	-	-

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	100-17	100-22	+0-04	100-23	100-09	487,565	367,123
Dec	99-18	99-29	+0-04	99-29	99-15	2,539	54,419
Mar	98-28	99-05	-0-02	99-05	98-28	604	4,056

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Sep	108.80	-	-	109.17	108.80	3265	0

* LIFFE contracts traded on APT. All Open Interest figs. are for previous day.

FT-ACTUARIES FIXED INTEREST INDICES

Price Indices UK Gilts	Mon Jul 11	Day's change %	Fri Jul 8	Accrued interest	xd adj. ytd
1 Up to 5 years (24)	121.70	+0.34	121.29	2.03	5.82
2 5-15 years (22)	141.26	+0.87	140.05	2.28	6.71
3 Over 15 years (9)	158.84	+1.18	156.78	2.20	6.57
4 Irredeemables (6)	179.78	+1.26	177.55	1.64	7.36
5 All stocks (61)	138.80	+0.76	137.78	2.20	6.43

	Low coupon yield Jul 11	Jul 8	Yr. ago	Medium coupon yield Jul 11	Jul 8	Yr. ago	High coupon yield Jul 11	Jul 8	Yr. ago
5 yrs	8.19	8.34	6.75	8.36	8.50	6.91	8.44	8.60	7.09
15 yrs	8.32	8.45	7.82	8.47	8.61	7.92	8.72	8.84	8.18
20 yrs	8.28	8.40	7.98	8.47	8.61	8.04	8.56	8.58	8.22
Irred.†	8.39	8.50	8.14						

Index-linked	Mon Jul 11	Day's change %	Fri Jul 8	Accrued interest	xd adj. ytd
6 Up to 5 years (2)	186.42	+0.05	186.34	1.38	2.53
7 Over 5 years (11)	171.13	+0.22	171.05	0.61	2.94
8 All stocks (13)	171.84	+0.20	171.75	0.68	2.88

	Inflation 5% Jul 11	Jul 8	Yr. ago	Inflation 10% Jul 11	Jul 8	Yr. ago
Up to 5 yrs	3.67	3.88	2.92	2.89	2.89	2.20
Over 5 yrs	3.82	3.94	3.51	3.75	3.78	3.33

Debentures and Loans	Mon Jul 11	Day's change %	Fri Jul 8	Accrued interest	xd adj. ytd
9 Debs & Loans (78)	129.58	+1.41	127.78	2.47	5.84

	5 year yield Jul 11	Jul 8	Yr. ago	15 year yield Jul 11	Jul 8	Yr. ago	25 year yield Jul 11	Jul 8	Yr. ago
	8.57	8.71	8.41	8.47	8.62	8.88	8.39	8.54	9.07

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT FIXED INTEREST INDICES

	July 11	July 8	July 7	July 6	July 5	Yr ago	High*	Low*
Govt. Secs. (UK)	92.85	92.14	92.08	91.60	91.78	98.08	107.04	90.99
Fixed Interest	109.66	109.52	109.25	108.78	109.26	118.21	133.87	107.33

* for 1994. Government Securities high since compilation: 127.40 (9/1/35), low 49.18 (3/1/75). Fixed Interest high since compilation: 133.87 (21/1/94), low 50.53 (3/1/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974

GILT EDGED ACTIVITY INDICES

	July 8	July 7	July 6	July 5	July 4
Gilt Edged bargains	90.2	71.8	92.5	84.3	73.0
5-day average	80.4	82.1	86.0	91.5	94.3

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:00 pm on July 11

	Issued	Bid	Offer	Chg.	Yield
U.S. DOLLAR STRAIGHTS	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
SWISS FRANC STRAIGHTS	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
YEN STRAIGHTS	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
OTHER STRAIGHTS	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
DEUTSCHE MARK STRAIGHTS	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FLOATING RATE NOTES	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
CONVERTIBLE BONDS	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[illegible]

© The Financial Times Ltd, 1994. Reproduction in whole or in part in any form not permitted without written consent. Data supplied by International Securities Market Association.

UK GILTS PRICES

	Notes	Yield Int	Yield Red	Price £	+ or -	1994 High	1994 Low
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Other Fixed Interest

	Notes	Yield Int	Yield Red	Price £	+ or -	1994 High	1994 Low
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

● "Tap" stock. ‡‡ Tax-free to non-residents on application. E Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds.

Tight cost controls benefit Low & Bonar

By Tim Burt

Ashley Ashwood

Jim Leng: his comments prompted a 16p rise in the share price

Low & Bonar, the packaging, plastics and specialist materials group, yesterday unveiled a 42 per cent increase in interim profits following a sharp improvement in sales and productivity.

Contributions from new subsidiaries and tight cost controls helped lift pre-tax profits from £14.3m to £20.4m in the six months to May 31, on turnover up 18 per cent at £201m.

Mr Jim Leng, chief executive, said such subsidiaries – dominated by Cereal Packaging and CMB Carton Systems – had turned the group intoBritain's largest food carton manufacturer and a market leader in Europe.

"We're modestly proud of these results. We've got very good operational gearing and margins have risen in all three divisions," he said.

His comments prompted a 16p rise in the shares to 403p.

The strong performance – led by its UK-dominated packaging division – was held back only by adverse currency movements and flat trading in continental Europe.

Although unfavourable exchange rates wiped £500,000 off group profits, the packaging business saw profits surge by 75 per cent to £8.4m in Europe and by 12 per cent to £2.8m in North America.

Currency losses were also offset by the group's plastics and specialist materials businesses, which together accounted for 48 per cent of trading profits. Of those divisions, the plastics business reported profits of £2.2m (£1.6m) in Europe and £1.4m (£900,000) in North America.

Profits in the specialist materials business, which manufactures products including floor coverings for civil aircraft and fibres for artificial hockey pitches, rose 9 per cent to £6.9m in Europe, although it made a small loss in the US and Canada.

The figures were enhanced by a decline in interest payable from £2m to £1.2m as the group reduced its borrowings from £18m to £16m, equivalent to gearing of 10.9 per cent.

Earnings per share rose 33 per cent to 13.59p (10.22p) and an interim dividend of 3.2p (2.9p) is declared.

● **COMMENT**

Low & Bonar should not be modest about its achievements. It has transformed itself from a conglomerate weighed down by eight divisions into a tightly focused three-pronged business. Despite £22m of acquisitions, it has also strengthened its cashflow and has enough leeway to make further purchases without coming to the market. Mr Leng, however, is determined to do better and has earmarked some "underperforming parts of the business to bring up to scratch". His record suggests he will achieve that aim and forecasts for pre-tax profits were raised yesterday to £42m for the year. The shares, on a multiple of 13.3, remain at a discount to the sector average.

MR Data shares fall 19% on sales delays at Memex

By Paul Taylor

Shares in MR Data Management fell by 19 per cent yesterday, after the group warned that delays in sales orders for its Memex software subsidiary and higher than expected reorganisation costs meant full year profits would be below expectations.

The shares closed down 33p at 144p after the data transcription and document image processing group issued a trading statement.

However the statement added that the second half would show an improvement over the first half.

When it reported a 34 per cent decline in interim pre-tax profits to £2.86m in early March MR Data blamed reorganisation costs, lower net interest income and development costs in the Memex software.

At that stage, the company said it was awaiting "significant sales decisions" from police forces on both sides of the Atlantic for its Crime/Criminal Informations Management System developed by Memex.

Yesterday Mr Mike Elliott, chief executive, said these orders had still not been received by the end of June. However he emphasised that they had not been lost or withdrawn. "We are still in the official tendering process and still confident we will be successful."

It is understood that two orders have been delayed because of the European Union's lengthy tendering requirements for public contracts. A third order is expected to be confirmed shortly from the US.

After appointing independent consultants to review Memex's business and prospects, MR Data's board said it was "confident that Memex is well placed to take advantage of the increasing emphasis on law enforcement in the UK and US and other markets for its unique text retrieval products".

In addition, the board said the cost of reorganising the group's document management and geographic information systems businesses was "higher than expected and had adversely affected the results for the year to end-June, but will lead to significant ongoing savings".

In an apparent attempt to reassure investors, the board added yesterday that the group's core business was now performing well. It intended to recommend at least a maintained final dividend for the year ended June 30, resulting in an increase in the total payment of 6.7 per cent.

A Fisher revokes scrip dividend

By Andrew Bolger

Albert Fisher has revoked its scrip dividend alternative because a recent slump in the food processing and distribution group's share price means the cash dividend is worth substantially more to shareholders.

Albert Fisher's shares have fallen from 56p at the beginning of June, when the scrip alternative was offered, to yesterday's close of 47p, up 1p on the day.

The shares slumped from 63p in April, after the group announced a £51m rights issue to fund its purchase of Rahbek, a Danish-based seafood company.

Analysts were critical at the time of the decision to issue high-yielding paper for an acquisition, but the rights issue was taken up by 90 per cent of existing shareholders – well above market expectations.

There seems no specific reason for the continuing downward drift in the group's shares, although recent concern over high fish prices may have been a factor. One analyst said low produce prices in the US, where the group does significant business, had still not turned the corner.

The Stock Exchange said all scrip dividend proposals had a get-out clause, so shareholders would not be disadvantaged by a fall in the share price, but said such cases "were fairly few and far between".

All shareholders will receive the interim dividend of 1.85p per share for the six-month period to February 28.

OFT to investigate Healthcall charges

By David Wighton

The Office of Fair Trading is to investigate allegations of anti-competitive practices by Healthcall, the UK's largest provider of out-of-hours doctors which came to the stock market in May.

The OFT said yesterday that it would make "some preliminary inquiries" into charges regarding Healthcall's relationship with the British Medical Association and its treatment of potential competitors.

Mr Maurice Henchey, Healthcall's chief executive, dismissed the allegations as the work of "political activists who accuse of us of privatising the National Health Service by the back door".

He denied suggestions that Healthcall threatens to cut off its service to doctors immediately it hears that they are planning to set up a duty doctors co-operative in competition.

"But if we find that they are approaching our staff or deputies we will make their lives difficult," he said.

Healthcall's duty doctor service, started almost 30 years ago, provides GPs with the out-of-hours cover they are obliged to supply.

Under an exclusive agreement first signed in 1966 the BMA promotes Healthcall's duty doctor service and monitors its standards in return for a fee set at 0.5 per cent of revenues.

Ms Dawn Primarolo, shadow health minister, has asked the OFT to consider whether the agreement falls under the Restrictive Trade Practices Act.

The OFT said yesterday that it fell outside the scope of the Act, because of an exemption for the provision of medical services, but added that it would look at some of the other allegations being made against Healthcall.

These centre on the effective monopoly Healthcall has in many urban areas and the difficulty some GPs say they have setting up co-operatives to compete with it.

Dr John Cockburn, managing director of Nestor Medical Duty Services, Healthcall's smaller commercial rival, said that in many smaller urban areas there was only room in the market for one commercial duty doctor operation and that it was reasonable for Healthcall to warn doctors thinking of setting up co-operatives that Healthcall might have to pull out.

He also dismissed the idea that the BMA agreement prevented Nestor competing effectively with Healthcall.

London Fiduciary makes acquisition

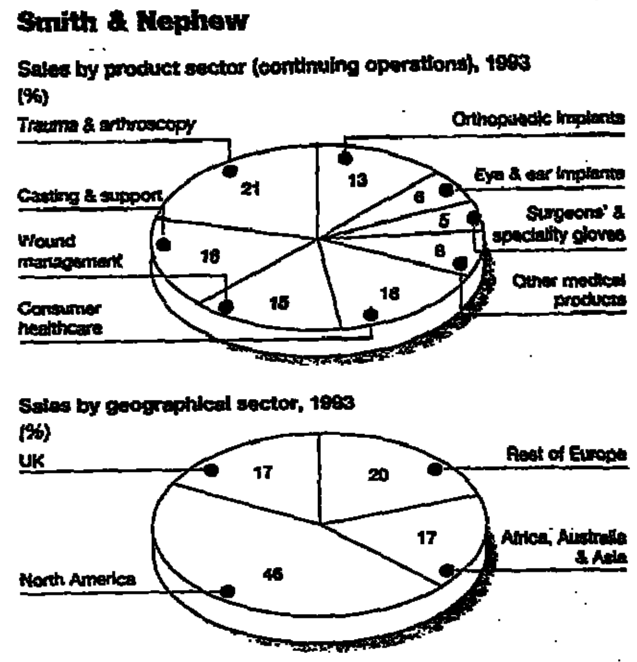
London Fiduciary Trust, the finance leasing provider chaired by Mr Phil Edmonds, the one-time England cricketer, has bought 60.487 per cent of Luxemburg Estates Company and has made an open offer for the balance on a 490-for-1 basis, valuing LEC at £5.67m.

LEC is a Luxembourg holding company with a portfolio of mining investments.

LFT's share capital – traded over the counter – is to be reduced, as is the nominal value of its existing shares. It is to raise between £298,000 and £650,000 via the issue of shares at 1p.

An efficacious formula

Daniel Green on Smith & Nephew's new found prominence



John Robinson: trading margins on an upward trend

There are few happy investors in the healthcare industries these days, but shareholders in Smith & Nephew might at least have a half-smile on their faces.

S&N's shares have outperformed the falling FT-SE 100 index and the pharmaceuticals sector by more than 10 per cent this year.

The unhappy pharmaceuticals sector has been hurt by falling margins because those who pay for drugs – insurance companies in the US and governments elsewhere – are bearing down on healthcare costs.

The profitability of the drugs industry, where operating margins of more than 30 per cent are typical, makes it an obvious target for efforts to cut prices.

But S&N seems to have been relatively unaffected. Annual sales in 1993 were £949m, up 11 per cent on 1992. Pre-tax profits before exceptional items were £163m, up 16 per cent.

Perhaps most important, trading profit margins have risen from 16.5 per cent in 1992 to 17.1 per cent last year and "are trending up again this year", says Mr John Robinson, chief executive. He says that they are likely to stay in the 17 to 18 per cent range.

S&N is happy with its new-found prominence. It has struggled for years to shrug off its image of a slow-moving pedlar of bandages and creams. Without medical magic bullets and blockbuster drug sales, the company's shares have been outpaced by the likes of Glaxo and Wellcome.

The turnround this year is the result of the very dullness of S&N's product range. Drug companies rely on a handful of big sellers for their success. Trouble with one can mean trouble for the whole company. S&N has 2,000 brands and none is vital to the future of the company. In a time of declining growth in healthcare, that gives S&N a rare defensive appeal.

Almost two thirds of sales are in four sectors:

● Casting and support. These include joint bracing devices and modern versions of the plaster cast. S&N says it is the world's biggest supplier, ahead of 3M and Johnson & Johnson of the US. Sales in 1993 were £162m, up from £121m a year earlier;

● Trauma and arthroscopy. These are fracture repair devices and keyhole surgery equipment. S&N says it is second and first respectively in world sales competing against the likes of Stryker of the US and Zimmer, part of Bristol-Myers Squibb, the US drug company. Sales last year were £199m (£155m);

● Orthopaedic implants, mostly artificial knees and hips. This is a fragmented business led by Zimmer and Howmedica, part of Pfizer, the US drugs company. S&N sales last year were £118m (£95m) and Mr Robinson acknowledges that the company is too weak, especially in hip implants. "We are vulnerable there," he says;

● Wound management, mostly specialist dressings for skin ulcers and pressure sores which often afflict the bedridden. Sales last year were £136m (£127m) and S&N says it is in fifth place in world sales behind the likes of 3M and Johnson & Johnson.

Other products include consumer goods such as Lil-lets tampons and Elastoplast plasters, eye and ear implants and surgical gloves.

Some of these products have defensive characteristics in themselves. Nurses must be trained to use specialist dressings, so a hospital manager offered cheaper dressings would have to bear in mind the costs of retraining.

Nevertheless, Mr Robinson concedes that there is price competition in some areas, especially in the US. He has tried to minimise the effect in three ways: by concentrating on high-margin, high-technology products in which S&N is a world leader; by broadening the group's geographical base; and by increasing research and development efforts.

So in 1992 S&N sold the Nivea cosmetics brand to Beiersdorf of Germany. It is no longer in simple bandage cloths and gauze, which are produced in developing countries at low prices.

It is trying to expand in Europe, especially Germany. Its European market share is low – almost half S&N's sales are in North America and only one fifth in continental Europe. The region is also promising because cost controls have tended to focus on cutting drug bills rather than total hospital costs as in the US.

And in May it set up a joint venture with Advanced Tissue Sciences, a Californian biotechnology company, to develop a means of growing living cartilage in the laboratory. A product, which would be surgically inserted into a patient's knee, is scheduled to be launched by the end of the decade and sales could reach $1bn (£600m) a year.

Mr Robinson is convinced that this strategy will maintain the company's outperformance, but some analysts are not convinced.

Mr Stuart Adkins at Lehman Brothers, the stockbroker, argues that the whole of the healthcare business is a buyers' market. "There is price pressure yet to come for Smith & Nephew," he says.

Even relatively high-technology medical goods such as hip implants are subject to heavy competition and "near commodity status". Investing in biotechnology companies is necessary but not sufficient for success, he says.

Mr James Culverwell at Hoare Govett, the stockbroker, is more optimistic, arguing that S&N is more accustomed than drug companies to the tendering process increasingly used by cost-conscious healthcare buyers.

Lower margins make it less of a target for bargain-hunting clients, and in any case the S&N sales effort already includes cost benefit analyses, an area still new to most healthcare suppliers.

Either way, it is clear that S&N is in a race against time. It must sell more in Europe and harvest the fruits of new research before price pressures begin in earnest and spill out from the US into Europe.

NEWS IN BRIEF

ATHELNEY TRUST, the smaller companies investment vehicle launched by stockbroker Dunbar Boyle & Kingsley, made its debut under rule 535.2 at 50p. The offer has been extended, reflecting the encouraging level of support.

BARONSMEAD INVESTMENT Trust: Net assets per share at June 30 were 109p (100p at March 18). Earnings per share for the three months to June 30 were 0.45p. No interim dividend is declared.

CHANNEL HOLDINGS has received acceptances for 90.2 per cent of its open offer. Shareholders acquired 2.14m ordinary shares and 342,373 shares were placed with institutions.

CML is paying a total of £400,000 for Integrated Micro Systems, an independent silicon chip design house. Consideration will comprise a cash payment for the net assets of IMS at June 30 and the issue of CML ordinary shares.

FIRST PHILIPPINE Investment Trust: net asset value per share at the six months ended April 30 was 106.4p, against 65.2p a year earlier. Net loss for the period was £61,606 (£67,517) giving losses per share of 0.12p (0.14p earnings).

GREEN FLAG, the parent company of which is National Car Parks, is making a £6m cash injection to its fledgling vehicle breakdown and recovery operation in France.

LABATT ICE Beer, a Canadian premium lager which has already proved a big success in North America and Japan, is now being brewed in the UK. Labatt's product is chilled until ice crystals begin to form. The result is a strong beer with 5.6 per cent alcohol by volume.

MARVEL ENTERTAINMENT is acquiring the Panini Group, based in Modena, Italy. Panini is well known for its album, sticker and card collections for children.

NSM said that of the 42.9m new ordinary shares at 100p each in its rights issue, 27.4m shares – 64 per cent of the issue – had been taken up by shareholders. The balance had been taken up by the sub-underwriters.

Shield incurs £188,900 loss

Shield Diagnostics Group, the biotechnology group which came to market last September, reported a pre-tax loss of £188,900 in the period from its incorporation in June 23 to March 31. Turnover was £1.67m.

Losses per share came out at 1.41p.

Shield Diagnostics Ltd, acquired in July, announced a pre-tax loss of £326,000 (£653,000) for the year to end March. Turnover was £2.2m (£1.68m), with £131,000 contributed by the medical division of Cortecs Diagnostics, acquired last November.

DIVIDENDS ANNOUNCED

		Current payment	Date of payment	Corres - ponding dividend	Total for year	Total last year
Barr (AG)	int	2	Aug 12	1.75	-	6.5
Bromsgrove Inds	fin	2.85†	Oct 3	2.75	4.5	4.4
Cook (DC) §	fin	0.7	Oct 3	0.6	1	0.6
Ellis & Everard	fin	5.15	Oct 10	4.8	7.6	7.05
Hamlet Group	fin	4	Sept 23	-	4	-
Low & Bonar	int	3.2	Oct 3	2.9	-	10
Merchants Trust	int	2.85★	Aug 26	2.65	-	11
Tomkins	fin	5.3	Oct 10	4.545	7.38	6.35

Dividends shown pence per share net except where otherwise stated. †On increased capital. §USM stock. ★First quarter.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Predicted Prices for trading on 12.07.94: Pool purchase price £/MWh	Final Prices for Trading on 14.06.94: Pool purchase price £/MWh	Pool selling price £/MWh
0030	13.22	10.60	10.60
0100	10.46	9.64	9.64
0130	9.90	9.64	9.64
0200	9.90	9.64	9.64
0230	9.90	9.64	9.64
0300	[illegible]	[illegible]	9.64
0330	[illegible]	[illegible]	9.64
0400	[illegible]	[illegible]	9.64
0430	[illegible]	[illegible]	9.64
0500	[illegible]	[illegible]	9.64
0530	[illegible]	[illegible]	8.63
0600	[illegible]	[illegible]	10.40
0630	[illegible]	[illegible]	10.50
0700	[illegible]	[illegible]	30.19
0730	[illegible]	[illegible]	26.04
0800	[illegible]	[illegible]	26.96
0830	[illegible]	[illegible]	27.97
0900	[illegible]	[illegible]	28.18
0930	[illegible]	[illegible]	38.96
1000	[illegible]	[illegible]	35.11
1030	[illegible]	[illegible]	29.60
1100	[illegible]	[illegible]	29.70
1130	[illegible]	[illegible]	36.34
1200	[illegible]	[illegible]	38.64
1230	[illegible]	[illegible]	39.40
1300	[illegible]	[illegible]	39.14
1330	[illegible]	[illegible]	29.20
1400	[illegible]	[illegible]	28.11
1430	[illegible]	[illegible]	27.38
1500	[illegible]	[illegible]	27.34
1530	[illegible]	[illegible]	27.37
1600	[illegible]	[illegible]	27.52
1630	[illegible]	[illegible]	31.89
1700	[illegible]	[illegible]	37.66
1730	[illegible]	[illegible]	37.51
1800	[illegible]	[illegible]	37.33
1830	[illegible]	[illegible]	28.77
1900	[illegible]	[illegible]	26.93
1930	[illegible]	[illegible]	25.91
2000	[illegible]	[illegible]	25.91
2030	[illegible]	[illegible]	25.91
2100	[illegible]	[illegible]	25.81
2130	[illegible]	[illegible]	25.91
2200	[illegible]	[illegible]	25.91
2230	[illegible]	[illegible]	25.91
2300	[illegible]	[illegible]	25.91
2330	[illegible]	[illegible]	21.38
2400	[illegible]	[illegible]	25.65

Company wins greater market share and makes significant volume gains

Ellis & Everard rises 30% to £15.9m

By Tim Burt

Shares in Ellis & Everard rose 16p to 225p yesterday after the chemicals distributor defied historic lows in the price of some industrial chemicals with a 30 per cent profits increase.

The Bradford-based group saw pre-tax profits rise from £12.2m to £15.9m after winning greater market share and making significant volume gains in the year to April 30.

The improvement was fuelled mainly by a strong performance in the US, where operating profits rose 23 per cent to $12.2m (£8m), against $9.9m, on turnover of $363.4m ($353.4m).

The group also made a £700,000 gain on favourable currency transactions, which helped offset an average 5 per cent fall in chemical prices.

Mr Peter Wood, chief executive, said the results had pushed the company into fifth position in the league of leading distributors and pledged to improve that ranking with further investment in facilities in Cleveland and Atlanta.

In the UK, operating profits rose by 7 per cent to £10.7m despite low prices, especially for products such as anti-freeze and caustic soda.

Mr Wood said the figures had been held back by flat operating profits of £600,000 in Ireland and increased losses of £400,000 (£200,000) in its swimming pools equipment and chemicals business.

However, turnover rose from £171.1m to £183.5m and he predicted "significant future benefits" from Ronmar Plastics, the polymer distributor acquired for £1.2m in January.

The group also acquired three US businesses – Metrochem, Tristate and Trinity – but overall capital expenditure fell from £10.3m to £8.8m as the tough pricing environment delayed expansion plans.

Those plans, including the redevelopment of its South Yorkshire storage tank facility, are expected to be completed this year following a recent upturn in chemical prices.

Earnings per share rose by 30 per cent to 13.4p (10.3p) and the prospect of a recovery in prices persuaded the company to lift its final dividend to 5.15p, making 7.6p (7.05p) for the year. Shareholders have been offered a scrip alternative for the second successive year.

● **COMMENT**

The international distributor has moved swiftly to shore up its activities after seeing chemical prices fall by 25 per cent against the 1990 average. It has delayed some large capital spending, overhauled its sales team and forged partnerships with suppliers such as BP and customers including Nutrasweet and Indchem. This has reduced its exposure to price volatility, while also ensuring a product range wide enough to reduce the burden of environmental regulations on some of its facilities. With prices moving upwards, profits this year are expected to reach £18.3m on a multiple of 14.6, making the shares one of the cheaper options in the chemicals sector.

Peter Wood: UK results pegged by flat Irish performance

AG Barr tops £2m and pins hopes on good summer

By James Buxton

AG Barr, the Glasgow-based soft drinks company which manufactures Irn-Bru and Tizer, yesterday reported pre-tax profits of £2.23m for the six months to April 30 1994, compared with restated profits of £1.61m for the equivalent period of 1992-93.

The restatement, from £2.1m, follows a decision to apportion marketing expenditure according to turnover levels instead of charging it when it occurs.

Turnover fell 4.5 per cent to £40.1m as the company turned away business in retailers' own label brands because of the low prices on offer from the big supermarket chains. Own label brands normally make up about 10 per cent of Barr's turnover.

Mr Robin Barr, executive chairman, said current pricing levels were too low to provide manufacturers with a satisfactory long-term return. Competition in own label brands was intensified by the introduction in April of Sainsbury's Classic Cola.

AG Barr says its own brands, where profit margins are higher, had a 2.5 per cent sales increase in the half year.

Mr Barr said turnover during the first nine weeks of the second half had followed the same pattern as that of the first. But he hoped the recent warm weather, particularly in the south of England, presaged better weather for the rest of the summer.

Last year's poor summer had had a disastrous effect on sales, he said.

Earnings per share emerged at 7.95p against a restated 5.91p and the interim dividend is being increased to 2p (1.75p).

The shares closed up 7p at 346p.

Unidare settles early on US buy

By Peter Franklin

Unidare, the Dublin-based industrial group, yesterday announced it had reached agreement and completed a transaction with the former shareholders of Nasco to satisfy its obligations under the share sale and purchase agreement in respect of the deferred and performance-related consideration.

Unidare bought Nasco, a US welding and safety distribution business in May last year.

The settlement, which is 15 months ahead of the date provided for in the agreement, was for a total payment (excluding costs) of I£7.1m (£7m) which, under the purchase formula implies operating profits at Nasco of $8.1m (£5.32m) in the year to June 1995.

Half of the payment was funded with bank debt, with the balance being satisfied from cash accumulated in Nasco since its acquisition.

Following this payment the total cost to Unidare of the purchase is I£32m, including debt assumed.

The directors said the outcome had considerable benefits for Unidare, including the elimination of uncertainty as to the potential gearing and goodwill written off in the balance sheet and removal of potential conflict of interest for the management – nine of whom shared in part of the proceeds of the deal.

Following the transaction, Unidare's gearing at September 1994 is expected to be between 50 per cent and 60 per cent, with a fall to about 40 per cent by September 1995.

Unidare also announced it had reached a settlement in respect of a dispute between Nasco and the US Internal Revenue Service, the effect of which would be that Nasco would incur no tax charge in the current financial year and would realise total tax savings of about $2.4m, which were not foreseen at the time of the acquisition.

The shares rose 10p to close at 265p.

Charter to reduce links with S Africa

By Andrew Bolger

The proportion of shares held by South African investors in Charter will fall from 20 per cent to 16 per cent as a result of last month's £93m rights issue by the diversified industrial conglomerate.

Exchange controls prevent South Africans taking up their rights in the 1-for-4 issue, made to help fund Charter's recommended £390m offer for Esab, the Swedish manufacturer of welding products.

The rights issue was in the form of an entitlement to Charter convertible stock units. The prospectus said South Africans would be able to sell their entitlements, nil paid, in London but if they did so they would be obliged to repatriate the proceeds to South Africa in commercial rands.

The South African authorities have now granted a listing for all the units in Johannesburg in nil-paid form with effect from yesterday, so investors will be able to sell their shares without suffering any adverse currency effect.

The acquisition, which more than doubles the size of Charter, is the culmination of a restructuring which last year unwound its links with Anglo American Corporation, the South African mining group, by unscrambling its ties with Johnson Matthey and Minorco.

Charter's offer was agreed by Incentive, the Swedish investment group and Esab's biggest shareholder, which speaks for 49 per cent of the voting rights. Charter has since bought shares in the market to increase the share of Esab's voting rights it has secured to 52.7 per cent.

Loss of £1.5m for Drew Scientific

Drew Scientific, the medical technology company which was forced to issue a profits warning six months after its stock market launch last year, turned in a pre-tax loss of £1.49m for the year to March 31 against a comparable profit of £151,000.

"The loss for the second half was less than the first but remained substantial," said Mr Trevor Barker, chairman, who also announced his own retirement through ill-health. He will remain a non-executive director and will be replaced as chairman by Mr Bill Fulton.

The problems associated with the Glycomat testing equipment, which led to the product being temporarily suspended and resulted in the profits warning have now been corrected. Sales improved in the second half, but have been particularly disappointing in the US and Japan.

Turnover was £977,000 (£1.72m).

The loss was stated after charging research and development spending of £503,000.

Losses per share came out at 6.1p. The shares closed down 4p at 40p.

Bromsgrove falls to £7.2m but confident

By Paul Cheeseright, Midlands Correspondent

Bromsgrove Industries, the specialist engineering group, yesterday sought to reassure both the market and its shareholders, as it announced lower pre-tax profits for the year to March 31 of £7.19m.

This compared with £7.6m previously and a record £8.85m in 1990-91.

"Strategically and financially, we are making very good progress. Bromsgrove is now a focused engineering group with a strong balance sheet, three core divisions and a clear strategy," said Mr Bijan Sedghi, the chairman.

The results were well in line with market expectations. The shares, which have been languishing at the bottom of this year's trading range, on a modest p/e of 11.3 and a yield of 6.3 per cent, gained 3½p to 91p.

This is less than half the price touched before the market collapse of October 1987, but there are now 72.6m shares in issue. When Mr Sedghi took over as executive chairman in January 1987 there were 10.2m. At the end of the 1986-87 financial year, shareholders' funds were £5.7m; now they are £36.06m.

The numbers cloak the expansion of what was an aluminium founder, unhealthily dependent on the then Austin Rover for its motor component sales. However, interest in the automotive market is no more. Bromsgrove is far more interested in products like orthopaedic implants, pumps and valves, golf shoe studs and forged steel.

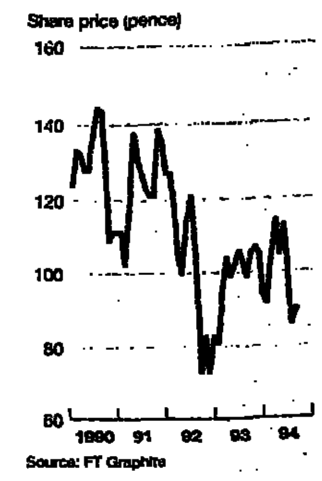
For the shareholders this expansion has never been a dull ride.

Recently there have been rumours of a revolt in the making, following Bromsgrove's appointment of Smith New Court as its broker, and the resignation of Albert E Sharp. However nothing has happened and Mr Steven Mills, the managing director, said yesterday: "All institutions have held or increased their holdings in the last three months."

But he acknowledged that "there may have been a little bit of shareholders' frustration".

The cause is uncertainty. Bromsgrove has always seemed to be bobbing and weaving. Companies have moved in and out of the group with bewildering speed. Financial services were a good thing to be in at one stage. Then they were not. Environmental services offered the promise of a revenue stream but not, as it turned out, the reality.

Bromsgrove Industries



Source: FT Graphite

There have been two distinct phases in Bromsgrove's development under Mr Sedghi, both of which mirror business fashion.

The first was the conglomerate, or, as the 1990 annual report had it, "an industrial holding company which operates within the parameters of carefully formulated policies".

The second, which reflected the contemporary canon of retreating to core activities, began in 1992 when Bromsgrove marshalled its subsidiaries into six divisions and more closely defined the sectors in which it wanted to operate.

Further reorganisation and the sale of the group's automotive and environmental companies have reduced the divisions to three and further tightened the definition.

The financial effect of this has been to cut gearing to 7 per cent at the year-end and 17.5 per cent now, putting the group in a comfortable financial position, from which it should not be necessary for it to issue any more paper.

For that, the stock market will offer thanks. The abundance of Bromsgrove paper has been a factor in keeping the share price down.

The market will also be cheered by accelerating group sales in the second half of the year under review.

Group turnover for 1993-94 came to £123.7m (£110.9m). Earnings per share were 7p (7.7p) and the proposed final dividend is 2.85p, making a total of 4.5p (4.4p).

NEWS DIGEST

Hamlet advances to £5.3m

Hamlet Group, the clothes importer which gained a stock market listing last October, reported pre-tax profits of £5.31m for the year ended March 31. This represents an increase of 37 per cent on the £3.88m for the previous 11 months.

Mr Malcolm Dagul, chairman, said this was the fourteenth consecutive year of increased turnover and profits for the subsidiary Hamlet International.

Group turnover was £71.9m (£54m). Earnings per share were 11.7p (10.93p). The proposed dividend is 4p.

Mr Dagul said net assets increased by 65 per cent to £18.9m which has enabled the group to continue the expansion programme.

Blue Circle invests in Chilean terminal

Blue Circle Industries, the UK's largest cement company, is investing $20m (£13.1m) through its subsidiary, Cemento Melon, in a terminal to supply the Chilean cement market.

Blue Circle said the move would be funded from internally generated sources.

The company also announced the sale of its direct build residential business, Saxon Developments, to Roxylight Homes, a company owned by a group of private investors, for £7.5m.

TBI makes £13.8m property sale

TBI, the property investment and development company, has sold its office building at Borehamwood, Herts, for £13.8m in cash to Postel, generating a £1.05m surplus to the net book value.

The rental income from the building, which totals 79,502 sq ft with 286 parking places, is £1.17m per annum. Proceeds will be used to reduce bank debt.

Select Appointments expands in Canada

Select Appointments (Holdings) has announced its fifth overseas acquisition in the past year, with the purchase of Canadian recruitment company, Reliance Resources Group, for up to C$5.5m (£2.6m).

Select has acquired an 80 per cent interest from the former sole shareholder and managing director of Reliance, Mr Dave McDougall.

Select, which has been 90 per cent owned by a Swiss investor group since 1991, has also undertaken to procure the repayment of loans made to Reliance by the vendor, not exceeding C$1m.

In the year ended April 30 1993, Reliance reported sales of C$19.3m and profits before tax and Mr McDougall's remuneration of C$1.2m.

Select reduced pre-tax losses to £642,000 (£950,000) in 1993, on turnover 60 per cent higher at £34.9m.

£3.5m disposal for Brent Walker

Brent Walker yesterday announced it had completed the sale of the assets, business and goodwill of the Westcliff Sporting Club and Westcliff Leisure Centre at Westcliff-on-Sea, Essex.

The purchaser is RJ Bown (Holdings) and the consideration is about £3.5m, payable on completion.

The proceeds of the sale will be used to reduce group borrowings.

Cairn Energy cuts US holding

Cairn Energy, the oil and gas exploration and production company, has placed 824,000 shares in Cairn Energy USA raising a net £3.9m.

As a result, Cairn now holds about 54 per cent of CEUSA.

Cairn expects to sell further CEUSA shares in a US placing dependent on the proposed acquisition of US oil and gas interests of Aeneas Group by CEUSA.

Motor boost helps DC Cook to £2m

A substantial upturn in its motor division enabled DC Cook Holdings to report pre-tax profits of £2.21m for the year to April 30 compared with losses of £132,000, restated for FRS 3.

There was also a £576,000 fall in interest payable to £908,000 as borrowings were cut over the period by £670,000 bringing gearing down to 60 per cent.

However the results were held back by increased losses in the UK and Spanish property divisions. The UK side, which includes the shopping centres, saw losses increase from £498,000 to £585,000. In Spain, where no sales were completed during the year, there was a loss of £629,000, compared with profits of £130,000.

Mr Derek Cook, chairman of this USM-quoted company, said that motor turnover was up 40 per cent with the numbers of new cars sold up by 21 per cent and used cars rising by 32 per cent.

The division's operating profit advanced to £5.53m (£2.95m) with margins rising from 2.9 to 3.9 per cent.

Group turnover was up 33 per cent at £143.4m (£108m). Earnings per share came out at 3.6p (0.44p). A final dividend of 0.7p is recommended making a total for the year of 1p (0.6p).

On prospects Mr Cook said the motor division was continuing its strong performance with new car sales in May up 52 per cent compared with an overall national rise of 10 per cent. He was also confident that there would be an improvement in the non-motor activities having substantially reduced UK property stocks and adapted to changed trading conditions in Spain.

Barr & Wallace £11.8m disposals

Barr & Wallace Arnold Trust, motor distribution, leisure and holiday group, is to sell Chancellor Court, a freehold property, to Barclays Nominees (George Yard) for £9.6m, payable in cash.

The company is also proposing to sell Trust Leasing to Mr Robert Barr, its managing director, for £2.15m cash, being consideration for the equity and repayment of company debt.

The sale is subject to shareholders' approval.

The disposals are being made to allow the company to concentrate on its core businesses and the proceeds will be used to reduce net borrowings from £15.9m to about £2.4m.

COMMODITIES AND AGRICULTURE

Coffee market gets back to record-breaking ways

By Alison Maitland

Yesterday's opening surge in London coffee futures notched up another market record. At $924 for the September robusta futures contract, it was the biggest ever opening rise, according to Mr Lawrence Eagles, analyst at brokers GNI. It easily beat the previous opening record of about $500.

Just as significant as the market's extraordinary gain is the fact that the earlier record was reached in 1976, a year after the frost that decimated Brazil's coffee crop.

The second severe freeze in a fortnight has increased the prospect of serious shortages for the next two years. That prospect has driven the market up 220 per cent this year, with a 77 per cent rise in the past two weeks alone.

Traders in London said they could not remember two such severe frosts coming so close together before. Although they are only just beginning to get a clear picture of the damage from last month's frost, the initial fear yesterday was that as much as half Brazil's 1995-96 crop could now be in jeopardy.

The Brazilian government had already cut its estimate for the crop to 17m bags from at least 35m before last Saturday's frost. The latest damage to coffee trees spread through the southern states of Parana and Sao Paolo but also again hit southern parts of the major producing state, Minas Gerais, where coffee production was moved during the 1980s to escape such freezes.

One producer in a co-operative in the south of the state told the Reuters news agency: "This was a very hard blow for us. It was worse than the frosts two weeks ago."

Particularly galling to farmers was that the latest frost – which left ice in some areas – damaged coffee fields that had been planted at 1,000 metres or above in order to avoid the frost danger.

Ms Judy Ganes, softs analyst with Merrill Lynch in New York, said futures prices would go on rising because there was a danger that Brazil might run out of stocks if demand remained constant.

Supply deficits looked set to continue from the 1993-94 season through to the 1995-96 season "at a time when producers have already reduced their stockpiles of coffee". The US Department of Agriculture puts the 1994-95 deficit at 9m bags, which will have to be met from producer stocks.

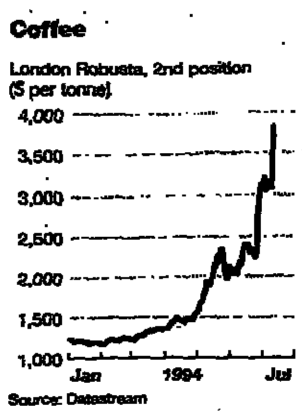
Furthermore, the USDA is suggesting that only about 9m bags of the 17m-bag Brazilian government stockpile may be fit for consumption. "If Brazil is going to sell 5m to 7.4m bags in the next 11 months, that's exhausting their stockpile," said Ms Ganes.

Brazil has suspended exports in order to assess the damage to the crop. Colombia yesterday announced it would halt registrations for private exporters, giving an added fillip to the New York market.

There were mixed views about the likely impact of the price rise on production. While some Brazilian farmers may be scared off replanting in frost-damaged areas, other south American farmers may wish to cash in on the price bonanza by planting more. However, they will have to wait about three years before new plantings yield a crop.

Coffee

London Robusta, 2nd position ($ per tonne)



Source: Datastream

Pulp maker defends 50 per cent price rises

By Alison Maitland

The 50 per cent rise in pulp prices this year has come just in time for the struggling paper industry, according to a leading US pulp and paper manufacturer.

Defending price rises of over 20 per cent for some paper customers so far this year, Mr John Kennedy, president of Federal Paper Board Company of New Jersey, said yesterday: "For the last two years we were selling pulp at below cost – six months ago substantially below cost. . . We were at the point where we would have had to shut down our North Carolina mill".

Mr Kennedy, speaking before a visit to the company's Tait paper mill in Scotland, said he appreciated customers' concern. "Three or four price increases in a relatively short period is a surprise and difficult to comprehend," he admitted. "But when we analyse the losses over the last two to three years and where we need to be to get a reasonable return on our investment, that's what has to happen."

Federal made a profit of $40m on sales of $1.4bn last year, thanks to its separate lumber operations. It made virtually no return on capital invested.

"Last year was probably the worst year in our industry in 40 years," said Mr Kennedy.

He pointed out that the latest price rise, which will take world pulp prices to $620 a tonne this summer, would leave them well below their peak of $850 a tonne in the late 1980s.

However, some paper users are being so badly squeezed by the price rises that they fear for their survival. Hinton Corrpack, a small company in Staffordshire, north-west England, which makes cardboard boxes for supermarkets, says the price of the board it buys is due to rise by 50 per cent by the end of the year.

"Some 60 to 70 per cent of our selling price is the raw material, so it's quite serious," said Mr John Weedon, managing director of the company, which has sales of £2.5m. "We've raised our prices by about 7 per cent, but the market won't bear any further increase. . . It's the small businesses that will give – those who get caught in the middle."

The slump in the paper industry was caused not by a fall in demand, which has grown steadily over the past few years, but by overcapacity. Following the last upswing in the early 1980s, capacity grew at 6 to 7 per cent a year during the late 1980s and early 1990s.

It costs about $750m to build a 1,000-tonne-a-day pulp mill and takes three to four years, so supply is often out of kilter with demand by the time the new capacity comes on stream.

"Demand has finally caught up with that increase in capacity," said Mr Kennedy.

The Tait mill, which buys over half its pulp from Federal's Carolina plant to make white uncoated free sheet – used for photocopying and computer paper – has itself more than doubled capacity in the past five years to 230,000 tonnes.

Mr Kennedy said Tait had been operating at or below break-even for two and a half years until the second quarter. But this year its customers have seen prices rise 24 per cent and the mill is fully stretched, with a 40-day order backlog.

The sharp rise in demand as much of the world emerges from recession has taken even the industry by surprise. Demand for cut size paper, which had been growing at 4 to 6 per cent a year, rose by 7 per cent in the first five months of this year. The temporary closure of pulp mills last year in North America, Scandinavia and Spain and Portugal, coupled with low customer stocks, has squeezed supplies of pulp.

Mr Kennedy believes another boom and bust cycle could be tempered by the huge environmental costs facing pulp and paper companies, especially in the US, which could hamper hefty investment in new capacity. Environmental regulations proposed in the US are expected to cost the industry between $8bn and $10bn.

EU aims to short circuit subsidy payment disputes

By Peter Marsh

The European Commission has set up a new body to speed up settlement of disputes with member governments about money being wasted through incorrect payment of subsidies under the European Union's common agricultural policy.

The establishment of the five-man committee is seen as a serious effort by the commission to address the practical problems of overspending on agriculture – which accounts for about half the European Union's Ecu70bn (£55bn) budget.

The group is to be chaired by Mr Jo Carey, a former UK Treasury official. He will act as a mediator in disputes between the commission and EU member states about how much agriculture spending individual countries should repay to EU funds in cases where the commission thinks that they have not stuck to spending rules.

Mr Carey is viewed as a robust, non-establishment figure and as such is expected to bring a common sense approach to bear on difficult disputes. For nine years until end of 1992 he was the UK's representative on the Luxembourg-based Court of Auditors, the EU's main spending watchdog.

According to the commission, Mr Carey and his team will probably review about 20 cases a year involving disputes over spending totalling more than Ecu500m a year.

The other members of the group will be Mr Walter Kittel, a former official in the German agriculture ministry; Mr Bernard Vial, a former inspector general in the French agriculture ministry; Mr Albert Simantov, a Greek who is former agriculture director at the Paris-based Organisation of Economic Co-operation and Development, and Mr Sabatino Loreto, an Italian Treasury official.

The type of cases Mr Carey will investigate will include disputes such as a long-running argument between Italy and the commission over milk quotas and allegations that Greece overspent by up to Ecu50m in 1991-92 through handing out subsidies to cotton farmers.

The committee, which is schedule to start work in September, will be part-time and its judgments will not be binding. However a commission official said that he hoped the group would "reduce the tensions" in arguments over spending by bringing to bear outside judgments.

Commission officials also express that hope that establishment of the new committee will give to those member states that complain about commission judgments an alternative way to press their cases instead of going through the lengthy procedure of bringing a case at the European Court of Justice.

Nigerian supply worries fuel rally in oil prices

By Robert Corzine

Oil prices rallied yesterday amid fears of possible supply disruptions from Nigeria, where a strike by oil workers is set to intensify this week.

The price of the benchmark Brent Blend for September rose by about 30 cents, to around $17.35 a barrel, in late London trading. Concern over Nigerian supplies, much of which are destined for the US, caused the spot price of West Texas Intermediate, the US benchmark, to rise above $20 a barrel in New York trading.

The rise was attributed to fears that a strike by Nigerian oil workers, which has so far had little impact on exports, could lead to supply disruptions if senior employees joined in.

Mr Mehdi Varzi, oil analyst at London brokers Kleinwort Benson, said recurrent market fears of cutbacks from politically unstable oil producers have so far not been realised. But they were "symptomatic of the market turning toward a bull phase", he said.

Earlier there was little market reaction to a report that production by members of the Organisation of Petroleum Exporting Countries in June was more than 500,000 barrels a day above its output ceiling of 24.52m b/d.

The Middle East Economic Survey said that a number of Opec members, including Iran, the United Arab Emirates, Nigeria and Iraq, were producing above their quotas. Iran yesterday said it was producing at its Opec quota of 3.6m b/d. But Mees said quota violations by Iran and the others pushed Opec production in June to 25.02m b/d.

Production discipline among Opec producers during a period of rising demand has a factor in the recent rally in oil prices from lows of around $13 a barrel last February.

Analysts say any sign of serious cheating could undermine prices. But many think it unlikely that past offenders such as Iran and Nigeria would be able to sustain higher output because they are operating close to capacity.

MARKET REPORT

Aluminium touches 40-month highs

Late profit-taking kept London Metal Exchange ALUMINIUM prices from building on an early move to 40-month highs, although the market still closed firmer and looked set for fresh advances, dealers said.

The three months price closed reached $1,549 a tonne, but closed at $1,540.50 a tonne, up just $1.

Buyers had been encouraged early on by the International Primary Aluminium Institute's announcement that stocks held in member countries fell by 64,000 tonnes in May; and a further fall in LME warehouse stocks is expected today. Looming supply tightness from September onwards was also underpinning the market.

At the London bullion market the GOLD price profited from the continued weakness of the US dollar, ending $2.60 higher at $386 a troy ounce.

The London Commodity Exchange COCOA market, although operating in the shadow of the extraordinary rise in coffee futures (see story above), itself posted quite respectable gains.

The September futures position closed at $1,049 a tonne, adding $33 to Friday's $22 rally, as market sentiment improved. This was helped, some traders suggested, by "sympathetic buying" linked to coffee's surge.

Compiled from Reuters

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE (Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1523-4	1540-1
Previous	1522-3	1539-40
High/low		1551/1536
AM Official	1529-30	1546.5-7
Kerb close		1541-2
Open int.	291,405	
Total daily turnover	76,642	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1512-7	1529-30
Previous	1510-5	1520-5
High/low		1535/1518
AM Official	1505-8	1521-2
Kerb close		1530-2
Open int.	N/A	
Total daily turnover	702	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	584.5-5.5	600-1
Previous	581-2	597-8
High/low		604/593
AM Official	585.5-6.5	601.5-2
Kerb close		591-2
Open int.	40,909	
Total daily turnover	8,093	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	6255-65	6350-5
Previous	6175-80	6265-80
High/low	6180	6370/6260
AM Official	6182-4	6275-80
Kerb close		6350-60
Open int.	58,800	
Total daily turnover	9,774	

■ TIN ($ per tonne)

	Cash	3 mths
Close	5315-25	5390-400
Previous	5300-10	5370-80
High/low		5410/5360
AM Official	5308-12	5381-2
Kerb close		5390-400
Open int.	189,577	
Total daily turnover	5,353	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	981.5-2.5	995-6
Previous	969-70	982-3
High/low	961/960.5	998/982
AM Official	961-2	984.5-5
Kerb close		993-4
Open int.	104,707	
Total daily turnover	17,232	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	2426.5-8.5	2444-5
Previous	2448-9	2467-8
High/low	2441	2460/2439
AM Official	2445-6	2459-60
Kerb close		2440-1
Open int.	240,207	
Total daily turnover	36,585	

■ LME AM Official £/$ rate: 1.5591

LME Closing £/$ rate: 1.5640

Spot 1.5647 3 mths 1.5637 6 mths 1.5632 9 mths 1.5616

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Open int	Vol
Jul	109.50	+0.45	110.00	109.40	2,886	445
Aug	109.10	+0.60	-	-	684	14
Sep	110.25	+0.60	110.60	109.60	32,686	7,592
Oct	109.85	+0.60	110.00	110.00	322	31
Nov	109.50	+0.60	-	-	245	-
Dec	109.10	+0.60	109.40	108.60	9,196	971
Total					59,184	8,210

PRECIOUS METALS

■ LONDON BULLION MARKET (Prices supplied by N M Rothschild)

Gold (Troy oz.)	$ price	£ equiv.
Close	385.80-386.20	
Opening	384.10-384.50	
Morning fix	384.40	247.044
Afternoon fix	385.75	246.360
Day's High	386.10-386.50	
Day's Low	384.10-384.50	
Previous close	383.20-383.60	

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	4.12	6 months	4.66
2 months	4.22	12 months	5.09
3 months	4.31		

Silver Fix	p/troy oz.	US cts equiv.
Spot	338.40	524.75
3 months	340.60	531.00
6 months	344.80	537.50
1 year	355.90	553.50

Gold Coins	$ price	£ equiv.
Krugerrand	389-392	250-253
Maple Leaf	396.40-398.90	-
New Sovereign	91-94	59-62

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Open int	Vol
Jul	387.1	+3.0	-	-	440	-
Aug	388.1	+3.0	390.3	385.4	66,145	28,705
Sep	388.5	+3.0	-	-	25	25
Oct	391.1	+3.0	392.2	388.5	6,375	942
Dec	394.3	+3.0	395.5	391.2	27,924	4,744
Feb	397.8	+3.0	-	-	7,445	4
Total					144,144	37,243

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Open int	Vol
Jul	405.3	+4.0	408.5	405.5	325	79
Oct	409.3	+5.0	409.7	405.0	17,977	4,280
Jan	412.3	+5.0	413.0	410.5	2,681	780
Apr	415.5	+5.1	-	-	1,464	9
Total					22,447	5,148

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Open int	Vol
Sep	148.85	+1.25	147.45	146.50	4,598	146
Dec	148.70	+1.25	-	-	733	-
Mar	148.70	+1.25	-	-	124	-
Total					5,438	146

■ SILVER COMEX (100 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Open int	Vol
Jul	530.7	+5.4	537.5	524.0	593	84
Aug	532.9	+5.2	525.0	525.0	-	-
Sep	534.7	+5.2	538.0	527.5	79,113	16,920
Dec	542.1	+5.3	546.0	535.0	23,051	1,772
Jan	543.8	+5.3	-	-	3	-
Mar	550.4	+5.4	548.0	545.0	6,425	160
Total					121,228	18,975

ENERGY

■ CRUDE OIL NYMEX (42,000 US galls. $/barrel)

	Latest price	Day's change	High	Low	Open int	Vol
Aug	19.91	-0.43	19.97	19.55	94,655	50,811
Sep	19.25	+0.37	19.32	18.94	72,225	18,585
Oct	18.89	+0.31	18.91	18.73	37,363	3,721
Nov	18.67	+0.28	18.67	18.54	28,180	3,618
Dec	18.52	+0.24	18.55	18.34	35,068	9,277
Jan	18.47	+0.25	18.46	18.35	19,928	1,986
Total					413,231	108,231

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Open int	Vol
Aug	17.80	+0.43	17.82	17.40	35,159	16,037
Sep	17.46	+0.40	17.47	17.10	44,398	13,736
Oct	17.31	+0.32	17.31	17.10	12,601	4,306
Nov	17.20	+0.30	17.20	17.07	7,764	1,947
Dec	17.12	+0.27	17.12	16.97	11,362	798
Jan	17.06	+0.27	17.05	17.00	3,980	617
Total					146,487	46,486

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Open int	Vol
Aug	48.60	+0.81	48.80	48.00	30,248	12,769
Sep	50.25	+0.47	50.40	48.75	20,777	6,683
Oct	51.20	+0.57	51.35	51.10	11,236	4,148
Nov	52.20	+0.57	52.35	52.05	8,899	1,522
Dec	53.30	+0.52	53.30	53.00	19,794	5,675
Jan	53.85	+0.57	53.95	53.85	11,651	2,328
Total					125,000	27,310

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Jul	148.25	+2.25	148.50	147.50	15,768	8,880
Aug	152.75	+1.75	153.25	151.25	28,496	8,376
Sep	155.75	+1.75	156.00	154.25	11,390	1,046
Oct	158.75	+1.25	158.00	157.25	9,155	1,002
Nov	160.75	+1.25	161.00	159.00	7,351	903
Dec	162.75	+1.25	162.75	161.25	15,641	467
Total					99,591	20,637

■ NATURAL GAS NYMEX (10,000 mmBtu; $/mmBtu)

	Latest price	Day's change	High	Low	Open int	Vol
Aug	2.010	-0.013	2.020	1.985	18,092	12,248
Sep	2.062	-0.022	2.070	2.035	11,492	3,139
Oct	2.095	-0.014	2.105	2.085	10,346	1,845
Nov	2.180	-0.014	2.190	2.175	11,221	865
Dec	2.280	-0.009	2.290	2.260	14,715	1,247
Jan	2.275	-0.003	2.290	2.260	10,000	761
Total					109,216	24,161

■ UNLEADED GASOLINE NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Open int	Vol
Aug	53.35	+0.57	53.45	52.75	43,598	12,558
Sep	53.55	+0.57	53.60	53.30	18,187	6,078
Oct	52.35	+0.62	52.45	52.05	5,201	870
Nov	51.25	+0.52	51.30	51.00	5,679	588
Dec	50.60	+0.37	50.60	50.70	3,495	318
Jan	50.05	-	-	-	1,612	105
Total					75,777	20,497

GRAINS AND OIL SEEDS

■ WHEAT LCE (£ per tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Sep	103.75	+0.75	103.75	103.15	453	58
Nov	104.75	+0.85	104.60	104.00	2,317	199
Jan	106.70	+0.85	106.70	106.15	1,449	78
Mar	108.30	+0.70	108.10	107.75	538	106
May	109.65	+0.60	109.50	109.35	509	111
Jul	111.65	+0.80	-	-	125	-
Total					5,391	552

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Open int	Vol
Jul	313/6	-0/2	316/4	313/0	5,830	6,225
Sep	320/0	-1/2	324/0	319/4	104,615	37,685
Dec	331/0	-1/2	335/6	330/4	139,280	29,085
Mar	335/6	-0/6	339/2	335/4	29,160	3,000
May	330/0	-0/6	333/0	330/0	1,015	290
Jul	317/2	-1/2	319/4	317/0	2,700	345
Total					282,810	78,610

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Open int	Vol
Jul	239/0	-2/4	242/0	238/2	54,060	19,095
Sep	228/6	-2/2	231/4	228/4	275,395	52,930
Dec	227/0	-0/6	229/0	226/6	596,790	64,755
Mar	235/6	-0/4	237/2	235/4	89,405	5,550
May	242/0	-0/6	243/4	241/6	22,765	2,130
Jul	245/2	-0/6	248/6	245/0	27,775	2,940
Total					1,081M	158,380

■ BARLEY LCE (£ per tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Sep	99.85	-0.65	-	-	199	-
Nov	101.40	-0.45	101.50	101.50	410	11
Jan	102.50	-	-	-	28	-
Mar	104.00	-	-	-	38	-
May	105.75	-	-	-	1	-
Total					676	11

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Open int	Vol
Jul	630/0	-1/2	633/2	628/4	37,740	20,540
Aug	622/0	-3/4	627/0	621/2	138,140	51,900
Sep	601/6	-3/6	607/0	601/0	57,700	10,875
Nov	585/0	-3/0	590/0	584/0	369,355	117,550
Jan	591/2	-4/0	596/4	591/0	40,845	3,995
Mar	599/0	-2/0	602/6	599/0	14,525	5,125
Total					684,825	217,360

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Open int	Vol
Jul	24.59	-0.41	25.00	24.58	2,756	960
Aug	24.61	-0.38	25.02	24.59	20,025	5,714
Sep	24.50	-0.27	24.86	24.48	17,271	3,423
Oct	23.80	-0.30	24.22	23.80	11,071	1,494
Dec	23.44	-0.23	23.88	23.42	32,346	5,267
Jan	23.49	-0.18	23.90	23.48	3,362	470
Total					92,868	17,674

■ SOYABEAN MEAL CBT (100 tons; $/ton)

	Sett price	Day's change	High	Low	Open int	Vol
Jul	187.0	+0.2	187.5	185.8	4,837	947
Aug	186.6	+0.3	187.0	185.1	22,199	5,739
Sep	184.6	+0.2	184.9	183.8	16,565	2,202
Oct	181.7	+0.2	181.9	180.7	8,418	980
Dec	181.4	+0.6	181.6	180.2	24,182	3,750
Jan	181.8	+0.4	182.1	181.0	2,244	346
Total					88,804	15,804

■ POTATOES LCE (£/tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Nov	90.0	-	-	-	-	-
Mar	105.0	-	-	-	-	-
Apr	211.0	+14.5	212.0	202.0	992	305
May	200.0	-	-	-	-	-
Jun	107.5	-	-	-	-	-
Total					992	305

■ FREIGHT (BIFFEX) LCE ($10/index point)

	Sett price	Day's change	High	Low	Open int	Vol
Jul	1387	+15	1390	1375	675	182
Aug	1362	+19	1367	1350	557	170
Oct	1409	+19	1409	1405	432	15
Jan	1415	+15	1419	1415	249	10
Apr	1425	+15	1428	1425	109	6
Jul	1200	-	-	-	60	-
Total					2,135	373

	Close	Prev
BFI	1380	1362

Tea

A fair demand prevailed, reports the Tea Brokers' Association. Best and good medium east Africans ruled fully firm to dearer after a hesitant start while mediums were irregular with quality. Central Africans sold readily around last rates. Ceylons came to a selective market with brighter teas steady, others 4 to 8 pence down. There was limited demand with Ceylons often neglected. Quotations: best available 270p/kg, good 160p/kg, good medium 148p/kg, medium 123p/kg, low medium 90p/kg. The highest price realised this week was 271p/kg for a Rwanda pf.1.

SOFTS

■ COCOA LCE (£/tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Jul	1039	+32	1042	1028	1,577	231
Sep	1049	+33	1051	1032	17,790	2,848
Dec	1057	+30	1058	1044	28,416	1,613
Mar	1073	+29	1072	1060	28,465	1,275
May	1077	+29	1073	1068	9,948	16
Jul	1081	+33	1071	1071	4,033	10
Total					103,322	6,462

■ COCOA CSCE (10 tonnes; $/tonnes)

	Sett price	Day's change	High	Low	Open int	Vol
Jul	1400	+33	1405	1400	195	6
Sep	1417	+28	1438	1388	35,242	10,922
Dec	1453	+21	1474	1438	13,874	2,606
Mar	1483	+33	1490	1462	7,522	417
May	1503	+33	-	-	2,997	46
Jul	1523	+33	1522	1510	2,310	-
Total					68,575	14,344

■ COCOA (ICCO) (SDR's/tonne)

July 8	Price	Prev. day
Daily	1017.62	997.70
10 day average	N/A	N/A

■ COFFEE LCE ($/tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Jul	3813	+753	3925	3500	1,239	147
Sep	3840	+764	4000	3700	21,699	7,953
Nov	3823	+740	3950	3710	8,261	2,644
Jan	3838	+750	3925	3700	9,432	1,399
Mar	3810	+737	3900	3705	3,570	164
May	3705	+632	3845	3700	397	273
Total					44,592	12,580

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Jul	233.35	+6.45	234.00	220.00	168	45
Sep	234.00	+7.00	239.50	219.50	24,302	5,292
Dec	198.25	+9.00	-	-	12,245	1,678
Mar	199.00	+9.00	-	-	7,177	780
May	199.40	+9.00	-	-	1,183	43
Jul	200.40	+9.00	-	-	293	3
Total					46,801	7,843

■ COFFEE (ICO) (US cents/pound)

July 8	Price	Prev. day
Comp. daily	168.64	170.45
15 day average	149.90	148.14

■ No7 PREMIUM RAW SUGAR LCE (cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Oct	11.89	+0.15	-	-	1,116	10
Jan	11.82	-	11.80	11.80	-	-
Mar	11.43	+0.20	-	-	60	-
Total					1,176	10

■ WHITE SUGAR LCE ($/tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Aug	338.60	+2.80	338.50	332.60	7,265	375
Oct	311.30	+2.10	311.70	309.50	10,981	344
Dec	309.50	+1.80	309.00	309.00	904	7
Mar	308.80	+1.90	307.10	306.10	3,713	78
May	308.10	+1.80	-	-	361	-
Aug	305.40	+1.80	-	-	343	-
Total					23,846	804

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Oct	11.47	+0.15	11.52	11.39	69,408	11,949
Mar	11.27	+0.14	11.29	11.20	39,931	3,936
May	11.20	+0.11	11.20	11.16	5,498	626
Jul	11.11	+0.08	11.14	11.10	2,158	72
Oct	11.07	+0.08	11.02	11.02	871	61
Mar	11.09	+0.08	-	-	94	33
Total					186,958	16,877

■ COTTON NYCE (50,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Aug	69.50	-1.75	-	-	5	-
Oct	70.19	-2.00	71.45	70.19	8,134	1,898
Dec	70.04	-1.74	71.20	69.78	29,805	4,599
Mar	71.25	-1.70	72.00	70.95	6,818	77
May	72.05	-1.88	72.40	71.80	4,244	151
Jul	72.75	-1.48	73.50	72.60	1,973	43
Total					52,119	6,837

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Jul	88.30	-7.15	93.50	85.50	166	227
Sep	90.30	-6.90	97.50	88.50	14,559	1,496
Nov	92.50	-2.95	99.90	91.55	3,238	273
Jan	95.50	-3.55	102.75	95.00	3,898	207
Mar	98.50	-3.65	104.50	98.00	2,384	64
May	101.25	-4.00	-	-	434	70
Total					24,797	2,339

VOLUME DATA

Open Interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears.

INDICES

■ REUTERS (Base: 18/9/31=100)

Jul 11	Jul 8	month ago	year ago
2072.5	2068.5	2002.2	1707.7

■ CRB Futures (Base: 4/9/56=100)

Jul 8	Jul 7	month ago	year ago
228.51	226.00	232.88	216.05

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Aug	66.850	+0.475	67.350	65.775	31,285	11,862
Oct	70.050	+0.125	70.300	69.300	19,946	6,838
Dec	69.950	+0.175	70.200	69.300	10,970	2,553
Feb	69.900	+0.325	69.900	69.150	9,346	1,843
Apr	70.950	+0.125	71.400	70.600	4,983	426
Jun	68.050	+0.225	68.350	67.700	1,067	143
Total					77,852	23,888

■ LIVE HOGS CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Jul	46.600	+0.675	46.850	46.350	1,607	506
Aug	44.525	+0.925	44.800	43.750	10,348	3,032
Oct	41.550	+0.550	41.600	41.100	6,763	1,942
Dec	40.675	+0.425	40.725	40.300	4,183	808
Feb	40.025	+0.850	40.075	39.625	1,110	174
Apr	39.050	+0.125	39.575	39.000	777	94
Total					25,256	6,586

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Jul	37.750	+0.350	38.150	37.000	882	345
Aug	35.550	+0.450	36.200	34.750	4,357	1,676
Feb	43.550	+0.250	43.600	42.450	2,134	364
Mar	42.400	+0.900	42.400	42.200	68	11
May	43.650	+0.750	44.000	43.550	49	1
Jul	44.500	+1.000	44.500	43.950	26	4
Total					7,516	2,297

LONDON TRADED OPTIONS

Strike price $ tonne — Calls — — Puts —

■ ALUMINIUM (99.7%) LME	Sep	Dec	Sep	Dec
1525	69	90	49	79
1550	56	79	62	92
1575	45	66	76	107
■ COPPER (Grade A) LME	**Sep**	**Dec**	**Sep**	**Dec**
2400	102	121	66	110
2450	76	99	81	136
2500	55	79	110	166
■ COFFEE LCE	**Sep**	**Nov**	**Sep**	**Nov**
3100	873	953	133	230
3150	837	922	147	249
3200	802	890	162	267
■ COCOA LCE	**Sep**	**Dec**	**Sep**	**Dec**
975	90	132	16	50
1000	73	118	24	61
1050	45	82	46	85
■ BRENT CRUDE IPE	**Aug**	**Sep**	**Aug**	**Sep**
1700	-	-	5	39
1750	25	49	8	62
1800	3	32	35	-

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel/Aug) +or-

Dubai	$16.46-6.56q	+0.370
Brent Blend (dated)	$17.66-7.69	+0.555
Brent Blend (Aug)	$17.86-7.89	+0.505
W.T.I. (1pm est)	$20.03-0.04	+0.565

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

Premium Gasoline	$182-184	+2.0
Gas Oil	$150-151	+3.0
Heavy Fuel Oil	$92-94	+1.0
Naphtha	$163-166	+1.0
Jet fuel	$165-167	+2.0

Petroleum Argus Estimates

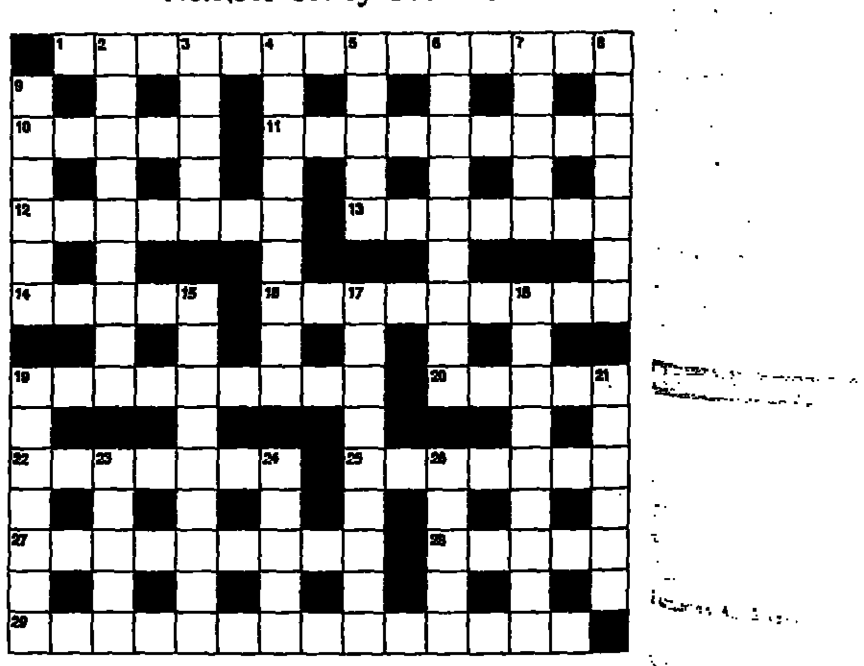
■ OTHER

Gold (per troy oz)♣	$386.00	+2.60
Silver (per troy oz)♣	529.50c	+7.00
Platinum (per troy oz.)	$402.50	+1.50
Palladium (per troy oz.)	$145.35	+1.60
Copper (US prod.)	114.0c	
Lead (US prod.)	36.75c	
Tin (Kuala Lumpur)	13.48m	
Tin (New York)	247.50c	+1.00
Zinc (US Prime W.)	Unq.	
Cattle (live weight)†	119.17p	-1.01
Sheep (live weight)†♣	98.63p	-0.46
Pigs (live weight)	76.42p	-0.03
Lon. day sugar (raw)	$290.0	+0.5
Lon. day sugar (wte)	$338.0	+3.0
Tate & Lyle export	£298.0	-2.0
Barley (Eng. feed)	£101.0t	+0.6
Maize (US No3 Yellow)	£143.5	
Wheat (US Dark North)	£180.0	
Rubber (Aug)♥	80.50p	
Rubber (Sep)♥	80.00p	
Rubber (KL RSS No1 Jul)	307.5m	-0.5
Coconut Oil (Phil)§	$630.0z	
Palm Oil (Malay.)§	$477.5q	
Copra (Phil)§	$400.0	+3.0
Soyabeans (US)	£178.0q	
Cotton Outlook 'A' index	82.00c	+0.55
Wooltops (64s Super)	426p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. t July/Aug. q Aug. z Jun/Jul. w July. ♥ London Physical. § CIF Rotterdam. ♣ Bullion market close. ♠ Sheep (Live weight prices). * Change on week, provisional prices.

CROSSWORD

No.8,503 Set by DANTE



ACROSS

1 Don't give up writing in Latin (3,11)
10 Vessel carrying fuel from Loire (5)
11 The point of no return for an actor (5,4)
12 Joint target for IRA retaliation (7)
13 The way in which a French painter finally got the point (7)
14 Animal finds fruit by river (5)
16 Return to a bed and board in dispute (9)
19 Left a sheet listing one's financial assets (9)
20 Drawing instrument found among the dividers? (5)
22 Purchase anew without right to pursue payment (5,2)
25 Bore fruit but abandoned (7)
27 He banks on earning interest (9)
28 It's often in hot water or a scrape (5)
29 Those providing better information (6,8)

DOWN

2 Surliness I shall need to moderate (3,6)
3 Cord I twisted into a sort of column (5)
4 It brings down the tone when depressed (4,5)
5 French apathy (5)
6 Reptile snarling at gorilla (9)
7 Confederate States vessel (5)
8 Sea-mist represented by painter (7)
9 Pipe for a sound rugby player (6)
15 Not on time when trade is slack (3-6)
17 Bird catcher's practical joke (5-4)
18 It is involved in land distribution (9)
19 Sanctimonious bounder or sporting fighter (7)
21 They sit for qualifications (6)
23 Meat jelly made with a non-eastern spice (5)
24 French physicist set to rise (5)
26 Regretted caging a bird (5)

Solution to Saturday's prize puzzle on Saturday July 23.
Solution to yesterday's prize puzzle on Monday July 25.

LONDON STOCK EXCHANGE

MARKET REPORT

Producer price figures boost gains in shares

By Terry Byland,
UK Stock Market Editor

Confidence that weakness in the US dollar will not provoke hasty action on US interest rates helped shares move ahead strongly in London yesterday. With British government bonds also very strong as the June producer price statistics confirmed that domestic inflation remains subdued, the stock market moved to within 8 points of the FT-SE 3,000 mark before closing off the top as Wall Street made a cautious start to its new trading session.

At 2,983.8, the FT-SE Index was finally a net 21.4 up on the day, and gains across the broader range of the market lifted the FT-SE Mid 250 Index by 19.3 to 3,473.9. Trading volume was brisk, bearing out indications that retail, or genuine investment interest in UK equities, has recovered from the nervousness seen ahead of the G7 meeting in Naples last weekend.

Equities opened cautiously behind the weaker trend in the US currency following comments from President Clinton as well as the widely-expected absence of any strong statement on the dollar from the G7 meeting. But shares soon responded to firmness in European bond markets.

London was also encouraged by a shift towards optimism on gilt-edged securities by UK fund managers, disclosed in the latest survey of investment funds by Gallup for Smith New Court, the London investment house.

Early gains were extended after UK producer prices for June, showing the lowest rise in output prices since 1967, were seen as convincing evidence that commodity price inflation has yet to reach manufacturing producers.

The UK market reached the day's peak with a net gain of 30 points as it waited for Wall Street to show its response to the G7 meeting and the renewed slide in the dollar. Shares later came off the top as US Federal bonds eased and Wall Street failed to hold its early gain to show a fall of 9 Dow points in London trading hours.

The UK market closed in confident mood, brushing off some concerns that this week's list of statistics on the US economy, beginning today with the producer price data, could still bring action from the Federal Reserve.

Much of the upward impetus for share prices came from stock index futures as the big securities houses moved themselves on to the bull tack after nearly a fortnight of uncertainty regarding the outlook for the dollar and global interest rates.

Consequently, the focus was on the Footsie listed stocks which are included in the baskets of shares making up the futures contracts. Of the 542.5m shares traded, around 47 per cent were Footsie-listed issues, and the remainder the non-Footsie stocks which drive the FT-SE Mid 250 Index. On Friday, retail business in equities was worth £1.46bn, confirming the recovery in investment activity.

The oil sector provided one of the few weak spots among the dollar-orientated issues, which were otherwise little affected by the selling of the US currency. Interest-related stocks attracted buyers, several leading building issues responding to optimism on rates in Germany.

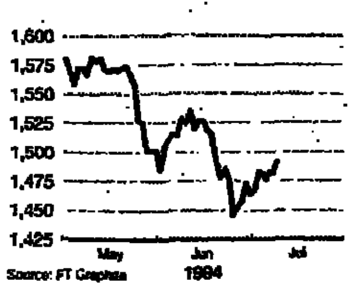
There were widespread gains across the broad range of UK manufacturing stocks, with engineering and vehicle industry shares to the fore. Retail stocks recovered poise on growing confidence that the recovery in the UK economy can be extended without causing inflation dangers.

Account Dealing Dates

*First Dealings: Jul 4	Jul 18**	n/a
Option Declarations: Jul 14	Jul 28	n/a
Last Dealings: Jul 15	n/a	n/a
Account Day: Jul 25	n/a	n/a

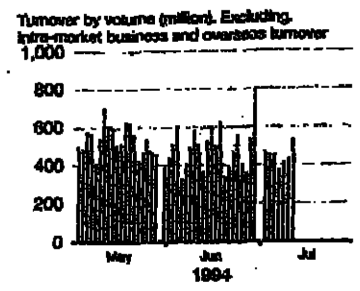
*New time dealings may take place from two days earlier. **New 10-day settlement system starts

FT-SE-A All-Share Index


Source: FT Graphite

Equity Shares Traded

Turnover by volume (million). Excluding: intra-market business and overseas turnover



■ Key indicators

Indices and ratios

FT-SE 100	2983.8	+21.4
FT-SE Mid 250	3473.9	+19.3
FT-SE-A 350	1502.8	+10.2
FT-SE-A All-Share	1491.78	+9.53
FT-SE-A All-Share yield	3.95	(3.97)
FT Ordinary index	2353.1	+21.7
FT-SE-A Non Fins p/e	18.88	(18.79)
FT-SE100 Fut Sep	2997.0	+43.0
10 yr Gilt yield	8.51	(8.62)
Long gilt/equity yld ratio:	2.17	(2.19)

Best performing sectors

1. Tobacco ... +3.3
2. Engineering, Vehicles ... +1.8
3. Distributors ... +1.6
4. Printing, Paper & Pckg ... +1.6
5. Electronic & Elec Eqpt ... +1.5

Worst performing sectors

1. Pharmaceuticals ... -0.5
2. Gas Distribution ... -0.5
3. Other Services & Bsns ... -0.5
4. Water ... -0.5
5. Oil, Integrated ... -0.5

US funds sellers of BP

The oil majors, BP and Shell, were among the worst performers in the FT-SE 100 index, with US institutions said to have been big sellers of the stocks, particularly BP, in the wake of dollar weakness.

The underperformance of the big oil issues was all the more surprising given that oil prices were exceptionally strong yesterday afternoon when August Brent was some 40 cents a barrel higher around the $17.75 level. Some analysts began to worry, however, that the latest upsurge in oil prices, along with other commodities, could begin to unnerve the US authorities and provoke moves to cap rising prices.

BP settled 5 off at 389p, on turnover of 5.8m, after some aggressive selling from all the big US investment houses, notably Merrill Lynch, Goldman Sachs and Salomon Brothers. Shell Transport also underperformed but managed to post a closing gain of 2 at 694p as the market waited for confirmation of the sale of its Billiton metals business in South Africa to Gencor for upwards of $1bn.

Tomkins doubts

A strong two-way pull in conglomerate Tomkins, brought turnover of 9.4m shares as the market gave a cautious welcome to the group's robust full year figures.

Profits jumped 50 per cent to £257m, in line with forecasts but the 16 per cent increase in the dividend to 7.38p was ahead of expectations.

Early demand saw the shares advance to 226p, before a more cautious mood set in following the meeting between the company and City analysts, leaving the shares just ½ ahead at 218p.

Explaining the retreat, Mr Geoff Allum at NatWest Securities said there was concern in the market at the length of time it was taking to integrate its last big acquisition RHM. In addition; "there is concern as to how successful the company will be to grow by acquisition in unrelated areas." However, Mr Allum edged his dividend forecast for the current year slightly forward to 8.5p, and said, "the negatives are now in the share price."

But Mr Ian Rennardson at stockbroker Yamaichi, was more bullish on Tomkins and said: "The market's caution is misplaced. The company has delivered the goods on RHM. There is no acquisition needed to show continuing growth."

Glaxo pressured

Pharmaceuticals group Glaxo saw its share price fall sharply in afternoon trading as a US takeover left the UK giant looking potentially stranded.

Eli Lilly & Co announced it was buying PCS, the pharmacy benefit management (PBM) arm of McKesson for $4bn. PCS is one of the last benefit managers to be available and the high price paid by Lilly was seen as reflecting the scarcity value.

The move was seen as wrecking Glaxo's chance to make that kind of inroad into the US market and putting paid to speculation that Glaxo intended to buy McKesson itself. However, after the close one US commentater suggested Glaxo might enter a bid auction. Many analysts believe Glaxo will have to invest in a PBM - which negotiates bulk discounts with drug companies for user groups - if it is to be represented in an increasingly important area of the US market.

Glaxo supporters said that the company had avoided paying what could be a top-heavy price and added that it was more likely to follow the course of Pfizer and go for strategic alliances. The shares which had been 3 higher, ticked back smartly to close 8 down at 563p.

SmithKline Beecham was very heavily traded in the 'A shares as one house sold a block of around 8m just before the end of official trading. The deal was carried out at 398p a share, well below the mid price, and pulled the shares down from a high of 407p to close 5 lower at 400p. Traders said the stock was sold by Smith New Court, the house renowned for large aggressive market operations.

Mirror Group was the most heavily traded share in the London market, rising 4 to 150p on turnover of 11m as the latest newspaper circulation figures for June showed that the Independent, in which Mirror has a stake of just under 40 per cent, had not been hit by the broadsheet price war.

Brewing retail and leisure group Scottish & Newcastle fell 3 to 495p on competition worries for its prestigious Center Parc's operation which generates around a third of the company's profits. Rival Rank announced plans to open a similar venture in Kent to S&N's 'roam in a dome' operation but analysts said Center Parcs were well established and Rank would not be able to compete in the same way. Rank, which has first half figures on Thursday lifted 12 to 374p.

Press speculation that the oft-mooted plan by Bass, Whitbread and Allied-Lyons to sell their £400m stake in Britvic had fallen through failed to affect the shares. The three brewers own 90 per cent of Britvic between them.

Bass, the main share holder has consistently refused to comment on whether it is preparing to sell. Analysts said sources close to Pepsico, the company expected to buy the stake, had also suggested that the talks had cooled but they believed the deal was bound to go through eventually. it was just a question of when. Bass rose 4 to 521p, Whitbread 7 to 504p and Allied 6 to 555p.

The prospects of demerging several of its businesses continued to boost Thorn-EMI. The shares added another 14 to 1053p. Rank Organisation were in demand ahead of Thursday's interim figures and the shares put on 12 to 374p.

News of the departure of Forte's director of operations was another blow to the hotels group. The shares eased to 221p, after trade of 5.3m. Detailed sell notes from BZW and NatWest Securities hit sentiment in the stock last week.

Great Universal Stores bumped up 14 to 567p ahead of the annual figures on Thursday as the market returned to its lingering fixation that the company is poised to buy back equity. Some analysts said that the company could buy back as much as 10 per cent or 100m shares and although the official offer price is unlikely to be much more than 590p a share the ACT tax breaks for pension funds would mean that, for them, the shares could have a nominal value closer to 700p.

GKN jumped 15 to 603p as NatWest Securities became the latest house to recommend the stock to clients.

MARKET REPORTERS:
Peter John,
Joel Kibazo,
Steve Thompson.

■ Other statistics, Page 21

NEW HIGHS AND LOWS FOR 1994

NEW HIGHS (20).
BUILDING & CNSTRN (1) Sheriff, BLDG MATLS & MCHTS (1) Shaw (A), CHEMICALS (1) European Colour, DISTRIBUTORS (2) Northamber, Polar, ELECTRNC & ELECT EQUP (1) TGI, ENGINEERING (3) Renold, Sykes -Pickavant, Torday & Carlisle, ENG. VEHICLES (1) UPF, EXTRACTIVE INDS (1) Impala Platinum, FOOD MANUF (1) Northumbrian, INVESTMENT TRUSTS (1) Foreign & Col. Inc. Grwth., LEISURE & HOTELS (2) Boosey & Hawkes, Spear (JW), MEDIA (1) Metro Radio, OIL EXPLORATION & PROD (1) Central Pacific, PHARMACEUTICALS (1) Utd. Energy Wrts., SUPPORT SERVS (1) Hawtal Whiting, TEXTILES & APPAREL (1) Torray.

NEW LOWS (129).
GILTS (3) BANKS (2) BREWERIES (2) Greenalls, Paramount, BUILDING & CNSTRN (5) Amco Corp., Galliford, Jarvis, Lovell (Y.J), Prowting, BLDG MATLS & MCHTS (1) Hatton, CHEMICALS (2) Doeflex, Engelhard, DISTRIBUTORS (3) Caskor, European Motor, Gardiner, DIVERSIFIED INDLS (1) BTR Nylex, ELECTRICITY (1) China Light, ELECTRNC & ELECT EQUP (4) Betacom, Johnson Ind., Scantronic, Tunstall, ENGINEERING (2) Hill & Smith, Hunting, ENG. VEHICLES (1) Ingham, EXTRACTIVE INDS (5) FOOD MANUF (3) HEALTH CARE (7) Greenacre, Hasmocell, Intercare, Quality Care Homes, Tamaris, Tepnel Diagnostics, United Drug, HOUSEHOLD GOODS (2) Fine Decor, Mayborn, INSURANCE (11) INVESTMENT TRUSTS (9) INVESTMENT COMPANIES (17) LEISURE & HOTELS (3) Allied Leis., Break for the Border, MEDIA (3) M&B, Phonelink, Trinity Intl., MERCHANT BANKS (1) Wintrust, OIL, INTEGRATED (1) Chevron, OTHER FINANCIAL (4) OTHER SERVS & BUSNS (1) Cape Range, PHARMACEUTICALS (1) Schering, PRTNG, PAPER & PACKG (4) Boxmore Intl., Inveresk, Lawson Mardon, Waco 8pc Cv. Pf., PROPERTY (8) RETAILERS, FOOD (1) Fyffes, RETAILERS, GENERAL (5) Benchmark, Clinton Cards, Country Casuals, Courts, Rosebys, SUPPORT SERVS (5) TEXTILES & APPAREL (5) Claremont Garments, Lamont, Readicut, Sirdar, Usher (F), TRANSPORT (1) Dawsongroup, WATER (1) Welsh, AMERICANS (5).

EQUITY FUTURES AND OPTIONS TRADING

A squeeze pushed stock index futures above the 3,000 level for the first time in more than three weeks, but the contract closed below the day's best as London was unsettled by a faltering Wall Street, writes *Joel Kibazo.*

Having opened at 2,962, the September futures contract on the FT-SE 100 moved steadily ahead with UK economic data on output prices for June taken to indicate inflation remained under control.

Dealers also cited hopes of greater stability in currency markets for the new positive tone to the market. Demand for September was said to have come from both independent (local) traders and the large institutions and the contract pushed through the 3,000 barrier to reach a day's high of 3,012.

However, the poor opening in New York in the afternoon checked a further advance and September finished the day at 2,997, up 38 on its previous close and 9 points above its estimated fair value premium to cash of about 5 points. Volume was 15,720 lots.

Traded options lacked the strong activity seen in futures and volume fell to 23,905 lots. The FT-SE 100 saw business of 8,724 and the Euro FT-SE 100 option traded 4,424 contracts. BP was the busiest stock option with a day's total of 1,326. It was followed by Glaxo at 1,238 lots and Argyll Group at 1,010.

■ FT-SE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	2962.0	2997.0	+38.0	3012.0	2961.0	15720	48338
Dec	2991.0	3006.0	+38.5	3016.5	2991.0	202	1151

■ FT-SE MID 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	-	3474.0	+19.0	-	-	0	4364

■ FT-SE MID 250 INDEX FUTURES (OMLX) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	-	3480.0	-	-	-	-	636

All open interest figures are for previous day. † Exact volume shown.

■ FT-SE 100 INDEX OPTION (LIFFE) (*2983) £10 per full index point

	2800 C	2800 P	2850 C	2850 P	2900 C	2900 P	2950 C	2950 P	3000 C	3000 P	3050 C	3050 P	3100 C	3100 P	3150 C	3150 P
Jul	[illegible]															167
Aug	[illegible]															176
Sep	[illegible]															188
Oct	[illegible]															203½
Dec†	[illegible]															195

Calls 4,845 Puts 3,944

■ EURO STYLE FT-SE 100 INDEX OPTION (LIFFE) £10 per full index point

	2825	2875	2925	2975	3025	3075	3125	3175
Jul	[illegible]							184
Aug	[illegible]							193½
Sep	[illegible]							
Dec	[illegible]							
Mar†	[illegible]							

Calls 1,583 Puts 2,841 * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months.

■ EURO STYLE FT-SE MID 250 INDEX OPTION (OMLX) £10 per full index point

	3300	3350	3400	3450	3500	3550	3600	3650
Jul	[illegible]							

Calls 0 Puts 0 Settlement prices and volumes are taken at 4.30pm.

FT - SE Actuaries Share Indices — The UK Series

	Jul 11	Day's chge%	Jul 8	Jul 7	Jul 6	Year ago	Div. yield%	Earn. yield%	P/E ratio	Xd adj. ytd	Total Return
FT-SE 100	2983.8	+0.7	2962.4	2964.4	2946.7	2830.9	4.15	7.05	16.77	66.98	1116.24
FT-SE Mid 250	3473.9	+0.6	3454.6	3454.7	3438.2	3226.6	3.56	5.92	20.33	72.61	1284.10
FT-SE Mid 250 ex Inv Trusts	3478.9	+0.6	3458.6	3458.8	3441.5	3245.4	3.70	6.41	18.93	75.32	1282.70
FT-SE-A 350	1502.8	+0.7	1492.6	1493.4	1484.9	1419.2	4.01	6.79	17.46	33.21	1150.84
FT-SE SmallCap	1779.68	+0.1	1778.61	1778.00	1777.85	1635.61	3.16	4.24	29.93	29.85	1369.46
FT-SE SmallCap ex Inv Trusts	1754.32	+0.1	1753.13	1754.72	1755.37	1637.69	3.34	4.66	27.72	30.69	1353.88
FT-SE-A ALL-SHARE	1491.78	+0.6	1482.25	1483.05	1475.19	1406.16	3.95	6.60	18.02	32.42	1162.17

■ FT-SE Actuaries All-Share

	Jul 11	Day's chge%	Jul 8	Jul 7	Jul 6	Year ago	Div. yield%	Earn. yield%	P/E ratio	Xd adj. ytd	Total Return
10 MINERAL EXTRACTION(18)	2570.46	[illegible]									
12 Extractive Industries(4)	3891.16	[illegible]									
15 Oil, Integrated(3)	2599.08	[illegible]									
16 Oil Exploration & Prod(11)	1891.17	[illegible]									
20 GEN MANUFACTURERS(284)	1952.73	[illegible]									
21 Building & Construction(32)	1161.37	[illegible]									
22 Building Matls & Merchs(31)	1981.96	[illegible]									
23 Chemicals(22)	2342.26	[illegible]									
24 Diversified Industrials(16)	1966.26	[illegible]									
25 Electronic & Elect Equip(35)	1873.14	[illegible]									
26 Engineering(70)	1814.34	[illegible]									
27 Engineering, Vehicles(12)	2174.51	[illegible]									
28 Printing, Paper & Pckg(26)	2767.68	[illegible]									
29 Textiles & Apparel(20)	1817.72	[illegible]									
30 CONSUMER GOODS(97)	2597.30	[illegible]									
31 Breweries(17)	2115.68	[illegible]									
32 Spirits, Wines & Ciders(10)	2723.16	[illegible]									
33 Food Manufacturers(23)	2174.51	[illegible]									
34 Household Goods(13)	2405.70	[illegible]									
36 Health Care(21)	1898.20	[illegible]									
37 Pharmaceuticals(12)	2818.75	[illegible]									
38 Tobacco(1)	3452.11	[illegible]									
40 SERVICES(220)	1902.78	[illegible]									
41 Distributors(31)	2649.38	[illegible]									
42 Leisure & Hotels(24)	3051.90	[illegible]									
43 Media(36)	2796.55	[illegible]									
44 Retailers, Food(17)	1781.26	[illegible]									
45 Retailers, General(45)	1681.89	[illegible]									
48 Support Services(40)	1616.82	[illegible]									
49 Transport(16)	2326.53	[illegible]									
51 Other Services & Business(6)	1141.40	[illegible]									
60 UTILITIES(36)	2217.56	[illegible]									
62 Electricity(17)	2133.38	[illegible]									
64 Gas Distribution(2)	1791.98	[illegible]									
66 Telecommunications(4)	2000.41	[illegible]									
68 Water(13)	1640.91	[illegible]									
69 NON-FINANCIALS(635)	1618.02	[illegible]									
70 FINANCIALS(104)	2070.11	[illegible]									
71 Banks(10)	2628.94	[illegible]									
73 Insurance(17)	1185.54	[illegible]									
74 Life Assurance(6)	2281.16	[illegible]									
75 Merchant Banks(8)	2731.09	[illegible]									
77 Other Financial(24)	1770.68	[illegible]									
79 Property(41)	1585.47	[illegible]									
80 INVESTMENT TRUSTS(123)	2665.64	[illegible]									
89 FT-SE-A ALL-SHARE(862)	1491.78	+0.6	1482.25	1483.05	1475.19	1406.16	3.95	6.60	18.02	32.42	1162.17

■ Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FT-SE 100	2957.9	2974.2	2983.7	2988.2	2988.9	2986.6	2987.9	2991.9	2983.1	2992.6	2957.8
FT-SE Mid 250	3452.9	3459.0	3465.5	3468.0	3469.5	3470.4	3471.5	3473.6	3473.9	3474.0	3452.0
FT-SE-A 350	1490.6	1497.9	1502.6	1504.5	1503.8	1503.6	1504.2	1503.9	1502.6	1505.0	1490.6

Time of FT-SE 100 High 2.53pm Low 8.51am

■ FT-SE Actuaries 350 Industry baskets

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	Close	Previous	Change
Bldg & Cnstrcn	1111.5	1112.6	1114.3	1114.0	1112.4	1112.7	1112.6	1112.6	1112.6	1111.8	1111.3	+0.8
Pharmaceuticals	2801.0	2809.0	2820.2	2823.9	2828.3	2826.6	2820.0	2794.5	2794.3	2809.5		-15.2
Water	1617.4	1624.2	1637.1	1637.0	1635.3	1634.8	1634.4	1635.3	1658.1	1638.1	1646.3	-8.2
Banks	2645.8	2657.3	2657.0	2662.1	2660.9	2661.1	2664.5	2667.2	2658.2	2661.7	2648.4	+13.3

Additional information on the FT-SE Actuaries Share Indices is published in Saturday issues. Lists of constituents are available from The Financial Times Limited, One Southwark Bridge, London SE1 9HL. The FT-SE Actuaries Share Indices Service, which covers a range of electronic and paper-based products relating to these indices, is available from FINSTAT at the same address. The FT-SE 100, the FT-SE Mid 250, FT-SE Actuaries 350 and the FT-SE Actuaries Industry baskets are calculated by the International Stock Exchange of the United Kingdom and Republic of Ireland and the FT-SE Actuaries All-Share Index is compiled by The Financial Times Limited, both in conjunction with the Institute of Actuaries and the Faculty of Actuaries under a standard set of ground rules. © The International Stock Exchange of the United Kingdom and Republic of Ireland Limited 1994. © The Financial Times Limited 1994. All rights reserved. "FT-SE" and "Footsie" are joint trade marks and service marks of the London Stock Exchange and The Financial Times Limited. The FT-SE Actuaries Share Indices are audited by The WM Company. † Constituent changes will be effected from July 11 the adjustment calculation will be published on a ground-up list basis rather than net of tax.

TRADING VOLUME

■ Major Stocks Yesterday

	Vol. 000s	Closing price	Day's change
ASDA Group†	10,000	57½	+1¼
Abbey National†	1,100	403	+8
Albert Fisher	897	47	+1
Allied-Lyons†	1,500	555	+6
Anglian Water	395	478	-2
Argos	871	342	-4
Argyll Group†	2,600	236	+2
Arjo Wiggins†	3,500	283	+9
Assoc. Brit. Foods†	123	531	+10
Assoc. Brit. Ports	409	270	+1
BAA†	[illegible]	[illegible]	[illegible]
BAT Inds.†	[illegible]	[illegible]	[illegible]
BET	[illegible]	[illegible]	[illegible]
BICC	[illegible]	[illegible]	[illegible]
BOC†	[illegible]	[illegible]	[illegible]
BP†	[illegible]	[illegible]	[illegible]
BPB Inds.	[illegible]	[illegible]	[illegible]
BT†	[illegible]	[illegible]	[illegible]
BT (Pt/Paid)	[illegible]	[illegible]	[illegible]
BTR†	[illegible]	[illegible]	[illegible]
Bank of Scotland†	[illegible]	[illegible]	[illegible]
Barclays†	[illegible]	[illegible]	[illegible]
Bass†	[illegible]	[illegible]	[illegible]
Blue Circle†	[illegible]	[illegible]	[illegible]
Booker	[illegible]	[illegible]	[illegible]
Boots†	[illegible]	[illegible]	[illegible]
Bowater†	[illegible]	[illegible]	[illegible]
Brit. Aerospace†	[illegible]	[illegible]	[illegible]
British Airways†	[illegible]	[illegible]	[illegible]
British Gas†	[illegible]	[illegible]	[illegible]
British Land†	[illegible]	[illegible]	[illegible]
British Steel†	[illegible]	[illegible]	[illegible]
Bunzl	[illegible]	[illegible]	[illegible]
Burmah Castrol	[illegible]	[illegible]	[illegible]
Burton	[illegible]	[illegible]	[illegible]
Cable & Wireless†	[illegible]	[illegible]	[illegible]
Cadbury Schweppes†	[illegible]	[illegible]	[illegible]
Calor Group	[illegible]	[illegible]	[illegible]
Caradon†	[illegible]	[illegible]	[illegible]
Carlton Comms.†	[illegible]	[illegible]	[illegible]
Coats Viyella†	[illegible]	[illegible]	[illegible]
Comm. Union†	[illegible]	[illegible]	[illegible]
Cookson	[illegible]	[illegible]	[illegible]
Courtaulds†	[illegible]	[illegible]	[illegible]
Dalgety	[illegible]	[illegible]	[illegible]
De La Rue†	[illegible]	[illegible]	[illegible]
Dixons	[illegible]	[illegible]	[illegible]
Eastern Elec.†	[illegible]	[illegible]	[illegible]
East Midlands Elec.	[illegible]	[illegible]	[illegible]
Eng China Clays†	[illegible]	[illegible]	[illegible]
Enterprise Oil†	[illegible]	[illegible]	[illegible]
Eurotunnel Units	[illegible]	[illegible]	[illegible]
FKI	[illegible]	[illegible]	[illegible]
Fisons	[illegible]	[illegible]	[illegible]
Foreign & Col. I.T.	[illegible]	[illegible]	[illegible]
Forte†	[illegible]	[illegible]	[illegible]
Gen. Accident†	[illegible]	[illegible]	[illegible]
General Elect.†	[illegible]	[illegible]	[illegible]
Glaxo†	[illegible]	[illegible]	[illegible]
Glynwed	[illegible]	[illegible]	[illegible]
Granada†	[illegible]	[illegible]	[illegible]
Grand Met.†	[illegible]	[illegible]	[illegible]
GUS†	[illegible]	[illegible]	[illegible]
GRE†	[illegible]	[illegible]	[illegible]
GKN†	[illegible]	[illegible]	[illegible]
Guinness†	[illegible]	[illegible]	[illegible]
HSBC (75p shs)†	[illegible]	[illegible]	[illegible]
Hammerson	[illegible]	[illegible]	[illegible]
Hanson†	[illegible]	[illegible]	[illegible]
Hays	[illegible]	[illegible]	[illegible]
Hillsdown	[illegible]	[illegible]	[illegible]
IMI	[illegible]	[illegible]	[illegible]
ICI†	[illegible]	[illegible]	[illegible]
Inchcape†	[illegible]	[illegible]	[illegible]
Johnson Matthey	[illegible]	[illegible]	[illegible]

Based on trading volume for a selection of major securities dealt through the SEAQ system yesterday until 4.30pm. Trades of one million or more are rounded down. † Indicates an FT-SE 100 index constituent.

LONDON EQUITIES

LIFFE EQUITY OPTIONS

Option		Calls Jul	Calls Oct	Calls Jan	Puts Jul	Puts Oct	Puts Jan
Allied-Lyons	540	22½	41	-	5½	17½	-
(*558)	588	3	17½	-	38	45½	-
Argyll	220	19	27½	32	1½	7	12
(*236)	240	4½	15½	21	8½	16	21½
ASDA	50	8½	10½	11½	1	2½	4
(*57)	60	2	4½	6	4	7½	9

Option		Calls Aug	Calls Nov	Calls Feb	Puts Aug	Puts Nov	Puts Feb
Hanson	240	13	18½	23	3½	10½	14
(*248)	260	4	10	14	14½	21½	25
Lasmo	134	7½	14	-	5	10½	-
(*136)	154	2	6	-	20	23½	-
Lucas Inds	180	13½	21	24½	4	13	15½
(*188)	200	5	12	15	16	24½	27½

* Underlying security price. Premiums shown are based on closing offer prices. July 11 Total contracts: 24,138 Calls: 12,792 Puts: 11,346

FT GOLD MINES INDEX

	Jul 11	% chg on day	Jul 8	Year ago	Gross div yield %	52 week High	52 week Low
Gold Mines Index (35)	1885.87	-0.8	1879.34	1861.46	1867.84	2.18	2387.40 1522.85
■ Regional Indices							
Africa (16)	2747.10	-0.5	2760.97	2754.87	2748.85	4.65	3440.80 1902.23
Australasia (8)	2431.26	+0.6	2417.26	2473.66	2475.63	2.12	3013.69 1993.18
North America (12)	1822.22	-1.3	1841.59	1557.25	1694.63	0.71	2309.85 1583.00

Copyright, The Financial Times Limited 1994. Figures in brackets show number of companies. Basis US Dollars. Base Values: 1000.00 31/12/92. Predecessor Gold Mines Index: July 11: 216.1; day's change: +0.7 points; Year ago: 204.1 Latest prices were unavailable for this edition.

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	61	4	7
Other Fixed Interest	6	0	5
Mineral Extraction	35	86	79
General Manufacturers	157	87	401
Consumer Goods	48	32	111
Services	108	71	327
Utilities	19	13	13
Financials	62	100	167
Investment Trusts	150	33	295
Others	53	60	41
Totals	599	496	1460

Data based on those companies listed on the London Share Service.

TRADITIONAL OPTIONS

First Dealings	July 11	Last Declarations	Oct. 13
Last Dealings	July 22	For settlement	Oct. 24

Calls: Acorn Comps., Amesco, Bluebird Toys, GEC, Havnocell, NTL, Fine Foods, Tullow Oil Put: Translac Put & Call: Greenwich Res.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m)	1994 High	1994 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
100	F.P.	31.9	104	99½	Baillie Gifrd Shn C	103	+1½				
540	F.P.	18.4	45	43	Bilocure	45					
105	F.P.	9.70	113	105	Bloomsbury Pb	113		WN2.94	2.7	3.3	11.5
150	F.P.	17.2	160	156	CPL Aromas	158		LN8.6	2.4	2.4	15.1
100	F.P.	64.2	157	99	Chesterton Intl	106		RN3.3	1.6	3.8	14.8
44	F.P.	47.5	44	43	Cortecs	43					
220	F.P.	108.4	225	221	Eurodollar	221	-1	WN8.5	0.9	4.8	17.3
-	F.P.	-	35¼	32¼	Five Arrows Wts	33¼	-¼				
-	F.P.	76.4	95	90	Fleming Indian	91					
-	F.P.	7.56	50	42	Do Warrants	42					
225	F.P.	108.3	235	225	Intermediate	232		LN9.3	2.1	5.3	8.1
-	F.P.	63.5	195	182	JBA	182	-1	LN2.4	4.1	1.9	16.5
-	F.P.	-	77	63	JF R Japan Wts	68					
3	F.P.	1.73	3¾	3	John Mansfield	3¼					
-	F.P.	14.3	97	94	Yeon Fry Euro	95½		b5.2	-	6.6	-
120	F.P.	34.2	130	125½	Norcor	127		WN6.56	2.5	4.5	10.8
100	F.P.	65.8	95	94	Old Mutual SA	94					
-	F.P.	6.16	44	43	Do Warrants	44					
-	F.P.	267.5	131	105	Redrow	121		WN2.7	2.5	2.8	16.4
-	F.P.	115.6	95	91	Schroder Jap Gw	92½					
-	F.P.	11.6	48	42	Do Warrants	44					
-	F.P.	41.3	92	89½	Scudder Latin	89					
-	F.P.	8.02	44	42	Do Wts	42					
100	F.P.	24.9	98	98	Shires HY Smlr C	98					
100	F.P.	3.52	97	97	TR Euro Gth Pkg	97					
-	F.P.	-	14	8½	TR Prop Wts	12	-½				
130	F.P.	16.8	80	80	Universal Ceramic	80		LN3.75	1.9	5.2	11.1
150	F.P.	50.9	150	129	VCI	131		WN6.5	1.6	5.2	11.7
-	F.P.	57.4	48	42	VideoLogic	46					

RIGHTS OFFERS

Issue price p	Amount paid up	Latest Renun. date	1994 High	1994 Low	Stock	Closing price p	+or-
47	Nil	19/8	6pm	3½pm	Anteroquey	6pm	
255	Nil	9/8	6pm	1½pm	Assoc Nursing	1½pm	
410	Nil	18/8	54pm	42pm	Cater Allen	42pm	-4
-	Nil	13/6	105pm	69pm	Charter	69pm	-10
265	Nil	14/7	69pm	34pm	Eurotunnel	35pm	-3
12	Nil	8/8	78pm	38pm	Hewitt Whiting	78pm	+7
3	Nil	25/7	2¾pm	1½pm	Helene	2¾pm	
70	Nil	18/8	13pm	12pm	Learmonth & Burchett	12pm	
20	Nil	18/9	12pm	11pm	London Intl	11pm	
-	Nil	-	5pm	3pm	Oriel	3pm	
15	Nil	3/8	4pm	4pm	Pavilion	4pm	
9	Nil	25/7	5pm	3pm	Quillspeed	3pm	
130	Nil	14/7	26pm	24pm	Ricardo	24pm	-2
73	Nil	5/8	5pm	4pm	Wales City of Lon	4pm	

FINANCIAL TIMES EQUITY INDICES

	July 11	July 8	July 7	July 6	July 5	Yr ago	*High	*Low
Ordinary Share	2353.1	2331.4	2327.4	2302.1	2320.5	2221.1	2713.6	2240.6
Ord. div. yield	4.27	4.31	4.32	4.36	4.32	4.16	4.46	3.43
Earn. yld. % full	5.68	5.73	5.74	5.80	5.77	4.95	5.95	3.82
P/E ratio net	18.73	18.57	18.52	18.35	18.45	25.87	33.42	17.89
P/E ratio nil	19.48	18.31	19.26	19.08	19.19	23.99	30.80	18.61

*For 1994. Ordinary Share index since compilation: high 2713.6 2/02/94; low 49.4 26/06/40
FT Ordinary Share index base date 1/7/35.

Ordinary Share hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2330.5	2343.2	2351.9	2356.0	2354.6	2355.0	2356.2	2356.5	2353.0	2356.9	2330.3

	July 11	July 8	July 7	July 6	July 5	Yr ago
SEAQ bargains	23,211	20,530	20,131	19,089	19,486	25,192
Equity turnover (£m)†	-	1463.4	1310.7	958.7	968.8	786.2
Equity bargains†	-	23,596	22,159	21,923	22,449	26,822
Shares traded (mil)†	-	540.3	440.0	424.4	398.5	368.7

† Excluding intra-market business and overseas turnover.

BANKS

BREWERIES

BUILDING & CONSTRUCTION

BUILDING MATS. & MERCHANTS

CHEMICALS

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ELECTRONIC & ELECTRICAL EQPT - Cont.

ENGINEERING

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

FOOD MANUFACTURERS

GAS DISTRIBUTION

HEALTH CARE

HEALTH CARE - Cont.

HOUSEHOLD GOODS

INSURANCE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

LONDON SHARE SERVICE

INVESTMENT TRUSTS - Cont.

[illegible]

OTHER INVESTMENT TRUSTS

[illegible]

INVESTMENT COMPANIES

[illegible]

LEISURE & HOTELS

[illegible]

LEISURE & HOTELS - Cont.

[illegible]

LIFE ASSURANCE

[illegible]

MEDIA

[illegible]

MERCHANT BANKS

[illegible]

OIL EXPLORATION & PRODUCTION

[illegible]

OIL, INTEGRATED

[illegible]

OTHER FINANCIAL

[illegible]

OTHER SERVICES & BUSINESSES

[illegible]

PHARMACEUTICALS

[illegible]

PRINTING, PAPER & PACKAGING

[illegible]

PROPERTY

[illegible]

PROPERTY - Cont.

[illegible]

RETAILERS, FOOD

[illegible]

RETAILERS, GENERAL

[illegible]

SPIRITS, WINES & CIDERS

[illegible]

SUPPORT SERVICES

[illegible]

TELECOMMUNICATIONS

[illegible]

TEXTILES & APPAREL

[illegible]

TOBACCO

[illegible]

TRANSPORT

[illegible]

TRANSPORT - Cont.

[illegible]

WATER

[illegible]

AMERICANS

[illegible]

CANADIANS

[illegible]

	Notes	Price	+ or –	1994 high	1994 low	Mkt Cap£m	Yld Gr's
Toronto-Dom		9⅝xd	+⅛	11¾	9⅛	2,895	4.1
Trans Can Pipe	♥	7¼	+⅛	10⅛	7⅝	1,406	5.5

SOUTH AFRICANS

	Notes	Price	+ or –	1994 high	1994 low	Mkt Cap£m	Yld Gr's	P/E
Anglo Am Ind		£25¼	-1½	£27½	£13½	1,677	2.9	18.8
Barlow	Z	642xd	—	65⅞	£3⅞	909.0	0.7	–
Gold Flds Prop R		97	-2	106	76	9.92	10.3	8.8
NK Props	s	85	—	95	85	3.42	10.5	34.9
SASOL	♥	326	—	362	280	1,841	4.8	–
SA Brews		£11⅞	+⅛	£16⅛	£10	6,494	2.3	19.3
Tiger Oats	†	636xd	—	838	538	859.4	2.5	13.5
Tongaat-Hulett		658xc	+8	*739¼	427½	491.9	2.4	18.3

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by Extel Financial, a member of the Financial Times Group.

Company classifications are based on those used for the FT-SE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid- prices.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Estimated price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation, excluding exceptional profits/losses and unrelieved ACT where applicable. Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

☐ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ) and non-UK stocks through the SEAQ International system.
* Highs and lows marked thus have been adjusted to allow for rights issues for cash
† Interim since increased or resumed
‡ Interim since reduced, passed or deferred
Φ Figures or report awaited
♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
♣ Free annual/interim report available, see details below.
USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
†† Not officially UK listed; dealings permitted under Rule 535(2)
‡ Price at time of suspension
¶ Indicated dividend yield after pending scrip and/or rights issue.
♦ Merger bid or reorganisation in progress
§ Forecast dividend yield; p/e based on earnings updated by latest interim statement.
♠ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
c Cents.
f Flat yield.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings.
v Not subject to ACT.
z Dividend yield includes a special payment
F Yield based on prospectus or other official estimates for 1994-95.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1993.
K Yield based on prospectus or other official estimates for 1994
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1993-94.
N Figures based on IIMR 'Headline Earnings'
P Figures based on prospectus or other official estimates for 1994.
R Forecast annualised yield, p/e based on prospectus or other official estimates.
T Figures assumed.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations:
xd ex dividend;
xc ex scrip issue;
xr ex rights;
xa ex all;
xi ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1235 a year for each security shown, subject to the Editor's discretion

FT Free Annual Reports Service

You can obtain the current annual/interim report of any company annotated with ♣. Please quote the code FT5855. Ring 081-770 0770 (open 24 hours including weekends) or Fax 081-770 3822. If calling from outside the UK, ring +44 81 770 0770 or fax +44 81 770 3822. Reports will be sent the next working day, subject to availability.

FT Cityline

Up-to-the-second share prices are available by telephone from the FT Cityline service. See Monday's share price pages for details.

An international service is available for callers outside the UK, annual subscription £250 stg.

Call 071-873 4378 (+44 71 873 4378, International) for more information on FT Cityline.

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

AUTHORISED UNIT TRUSTS

	Init Chrge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
Martin Currie Unit Trusts Ltd (0905)H						
Saltire Crt, 20 Castle Terrace, Edinburgh 031-479 4846						
Intl Income	5¼	69.01	69.67xd	73.98	-0.07	4.41
European (2)	5¼	77.84	77.84	82.83	-0.02	0.42
Income & Growth	5¼	70.03	70.03	74.34	+0.03	2.87
Nth American (2)	5¼	56.32	56.32xd	59.79	-0.39	0.38
Far East (2)	5¼	175.3	175.3xd	186.1	-1.4	-
Japan	5¼	65.81	65.91	69.97	-0.84	-
Emerging Markets	8	102.9	105.0	112.3	-1.1	-
Intl Growth	5¼	107.4	108.1	114.8	-0.9	0.11
UK Growth	5¼	81.93	81.93	86.97	+0.2	0.85
Asian Opportunities	8	37.24	37.72xd	40.34	-0.87	0.17
UK Smaller Cos	5¼	44.49	45.44	48.24	+0.07	0.67
Mayflower Management Company Ltd (1200)F						
1 White Hart Yard, London Bridge SE1 071-407 5966						
Income	5	389.29	389.29	414.14	+1.43	4.1
Global Inc	5	63.19	63.19	67.22	+0.12	2.7
Brit Leaders	5	312.87	312.87	332.84	+1.02	2.73
Intl Leaders	5	193.47	193.47	205.82	-0.67	0.94
PMI Mg Ind Growth ♥	3½	60.12	61.87	64.28	+0.09	0.7

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro §§

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often set above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

TIME: The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (♥) - 0001 to 1100 hours; (♣) - 1101 to 1400 hours; (♠) - 1401 to 1700 hours; (♦) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point; a short period of time may elapse before prices become available.

HISTORIC PRICING: The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

FORWARD PRICING: The letter F denotes that the managers deal at the price to be set on the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

SCHEME PARTICULARS AND REPORTS: The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

§§ Life Assurance and Unit Trust Regulatory Organisation, Centre Point, 103 New Oxford Street, London WC1A 1QH Tel: 071-379-0444.

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

Thornton Unit Managers Ltd (1200)F

Abbey Life Assurance Co Ltd

Canada Life Group - Contd.

Family Life Assurance Ltd

Irish Life Assurance Co Plc

Century Life Plc

Friends Provident

OTHER UK UNIT TRUSTS

INSURANCES

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

Scottish Equitable plc - Contd.

Scottish Life Investments

19 St Andrew Square, Edinburgh 031-225 2211

Scottish Mutual Assurance plc

109 St Vincent St, Glasgow 041-248 6321

Sun Alliance Group - Contd.

CMI Insurance Co Ltd

Scottish Provident Intl Life Ass Ltd

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

OFFSHORE INSURANCES

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)(**)

OTHER OFFSHORE FUNDS

MANAGED FUNDS NOTES

CURRENCIES AND MONEY

MARKETS REPORT

Dollar ebbs lower

The dollar weakened further yesterday after the failure of the weekend G7 summit in Naples to produce any form of dollar support package, *writes Philip Gawith.*

This omission had been widely predicted and was discounted in the market. This did not stop traders and investors selling the dollar, but since the market was already short of the currency, levels of activity were not particularly dramatic.

Against the D-Mark the dollar slipped sharply, closing in London at DM1.54 from DM1.5741 on Friday, levels last reached in April 1993.

The dollar also finished at a new post-war low of Y97.365, from Y98.575 on Friday, against the yen. Losses were pared slightly by uncertainty following the weekend death of the North Korean leader Kim Il-Sung.

Dollar weakness continued to set the tone for currency markets in general. The D-Mark remained a leading beneficiary, and maintained its recent strength against most European currencies. It closed at FFr3.436, from FFr3.434, against the French franc.

Sterling weakened further against the D-Mark, finishing at DM2.4081 from DM2.4241. These losses were largely offset by gains against the dollar, with sterling finishing at $1.5638 from $1.54 on Friday. The sterling index slipped to 79 from 79.1.

■ Analysts remain very gloomy about the short term outlook for the dollar, with most predicting that it will fall further to the Y90-95 range, and DM1.50-55 in the near term.

Although the G7 was widely written off before the fact as an irrelevant talk-shop, the fact that it lived down to its reputation - as least as far as the dollar was concerned - was taken by the market as a further reason to sell the currency.

The decisive event - moreso than the failure of the final G7 communique to mention currencies - was President Clinton's comments last Friday that the US did not intend to use the dollar as an instrument of trade policy (comments he repeated to reporters yesterday after meeting Mr Helmut Kohl, the German chancellor).

Mr David Cocker, economist at Chemical Bank in London, said the president had been unpersuasive. "The market still believes the US is adopting a trade policy that is happy to see a weaker dollar."

A second concern, following last Friday's strong non-farm payroll numbers in the US, is the relationship between the Treasury and the Federal Reserve. The market is increasingly concerned that the Fed is falling "behind the game" in terms of combatting inflation. This conclusion is aggravated by the perception that this may be the result of political pressure.

Mr Steve Hannah, director of research at IBJ International in London comments: "The perception that the market has is that Clinton appears to be adopting a policy of benign neglect towards the dollar. If it came to a choice between a weaker dollar or higher interest rates, he would clearly choose the former rather than risk jeopardising the economic recovery."

Mr Hannah said the dollar would continue to weaken "until a strong consensus emerges that it is too cheap, or the Fed makes aggressive interest rate moves."

The IBJ analyst said neither occurrence seemed likely at the moment, adding that it was far from certain whether even a 50 basis point increase in US rates would be enough. "While uncertainty about stock and bond markets continues, it is doubtful whether people will want to buy US assets," said Mr Hannah.

He noted that the good performance of European bond and equity markets yesterday, combined with stable currencies, was not a situation that would encourage dollar demand.

■ Improved sentiment in the gilts markets spilled over into the short end of the interest rate futures market. The December short sterling contract settled in London at 93.64, seven basis points up from Friday. Volume was fairly good, with more than 21,000 lots traded.

The December euromark contract did even better, trading nearly 58,000 lots to finish at 95.08 from 94.97. Further along the yield curve, the movements were even sharper, with most of the 1995 contracts rising by over 20 basis points.

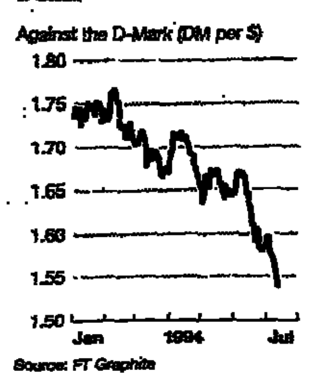
Analysts said there was no real fundamental explanations for these movements. They reflected, instead, greater bullishness about the outlook for bunds and gilts, and a technical rebound from Friday where the market had got itself into an oversold position.

■ In the money markets, German call money firmed to about 5 per cent from 4.9 per cent on Friday as dealers sought to bolster reserves that had been run down over the weekend. The securities repurchase (repo) rate is currently 4.93 per cent.

In the UK the Bank of England provided late assistance of £200m to the money markets after forecasting a shortage of £650m. It had earlier provided £150m liquidity. Overnight money traded between 4¼ and 6½ per cent.

Dollar

Against the D-Mark (DM per $)



Source: FT Graphite

■ **Pound in New York**

Jul 11	Latest	Prev. close
£ spot	1.5655	1.5495
1 mth	1.5650	1.5490
3 mth	1.5646	1.5485
1 yr	1.5615	1.5442

■ **OTHER CURRENCIES**

Jul 11	£	$
Hungary	156.475 - 156.681	100.080 - 100.180
Iran	2695.00 - 2698.00	1748.00 - 1750.00
Kuwait	0.4612 - 0.4626	0.2950 - 0.2958
Poland	34715.9 - 34773.9	22204.0 - 22234.0
Russia	3147.93 - 3154.18	2013.00 - 2017.00
U.A.E.	5.7417 - 5.7533	3.6715 - 3.6735

POUND SPOT FORWARD AGAINST THE POUND

Jul 11		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. Index
Philippines	(Peso)	41.5858	+0.094	982 - 934	41.8219	41.1816	-	-	-	-	-	-	-
Saudi Arabia	(SR)	5.8646	+0.0892	634 - 658	5.8747	5.8272	-	-	-	-	-	-	-
Singapore	(S$)	2.3660	+0.0245	648 - 671	2.3780	2.3542	-	-	-	-	-	-	-
S Africa (Com.)	(R)	5.7148	+0.0482	115 - 180	5.7279	5.6918	-	-	-	-	-	-	-
S Africa (Fin.)	(R)	7.3027	+0.0033	859 - 195	7.3658	7.2853	-	-	-	-	-	-	-
South Korea	(Won)	1259.92	+20.03	956 - 027	1261.97	1251.52	-	-	-	-	-	-	-
Taiwan	(T$)	41.8069	+0.6448	924 - 214	41.8725	41.4359	-	-	-	-	-	-	-
Thailand	(Bt)	39.0156	+0.5322	937 - 374	39.0843	38.7850	-	-	-	-	-	-	-

†SDR rate for Jul 8. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1985 = 100.Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Jul 11		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	J.P Morgan Index
Europe													
Austria	(Sch)	10.8275	-0.249	250 - 300	11.0596	10.8230	10.832	-0.5	10.84	-0.5	10.7775	0.5	104.3
Belgium	(BFr)	31.7800	-0.76	700 - 900	32.2200	31.7700	31.835	-2.1	31.89	-1.4	31.975	-0.6	105.2
Denmark	(DKr)	6.0601	-0.1305	583 - 618	6.1327	6.0580	6.0676	-1.5	6.0821	-1.5	6.1201	-1.0	105.4
Finland	(FM)	5.1016	-0.1047	998 - 033	5.1727	5.0988	5.1041	-0.6	5.1091	-0.6	5.1526	-1.0	76.8
France	(FFr)	5.2923	-0.1142	915 - 930	5.3540	5.2905	5.2979	-1.3	5.3058	-1.0	5.2685	0.4	105.9
Germany	(D)	1.5400	-0.0341	397 - 402	1.5578	1.5389	1.5404	-0.3	1.5402	0.0	1.5285	0.7	106.9
Greece	(Dr)	232.850	-4.95	700 - 000	237.900	232.700	234.2	-7.0	235.05	-3.8	237.35	-1.9	69.3
Ireland	(I£)	1.5477	+0.0257	466 - 488	1.5505	1.5334	1.5465	1.0	1.5444	0.9	1.5356	0.8	-
Italy	(L)	1531.50	-31.5	100 - 200	1551.00	1530.39	1536.75	-4.1	1545.55	-3.7	1582.5	-3.3	77.0
Luxembourg	(LFr)	31.7800	-0.76	700 - 900	32.2250	31.7700	31.835	-2.1	31.89	-1.4	31.975	-0.6	105.4
Netherlands	(Fl)	1.7270	-0.0384	265 - 275	1.7482	1.7264	1.7276	-0.5	1.7277	-0.2	1.7181	0.5	105.6
Norway	(NKr)	6.7586	-0.151	568 - 603	6.8735	6.7552	6.7621	-0.6	6.7701	-0.7	6.7171	0.6	96.4
Portugal	(Es)	158.900	-3.28	800 - 000	160.500	158.800	160.2	-9.8	162.4	-8.8	168.85	-6.1	94.2
Spain	(Pta)	127.050	-3.185	000 - 100	129.153	127.000	127.425	-3.5	128.12	-3.4	130.81	-3.0	80.9
Sweden	(SKr)	7.6374	-0.1533	331 - 417	7.8140	7.6321	7.6559	-2.9	7.6939	-3.0	7.8524	-2.8	78.7
Switzerland	(SFr)	1.2980	-0.0285	975 - 985	1.3125	1.2975	1.2976	0.4	1.296	0.6	1.2823	1.2	105.8
UK	(£)	1.5638	+0.0238	635 - 640	1.5665	1.5532	1.5633	0.4	1.5628	0.2	1.5591	0.3	87.3
Ecu	-	1.2383	+0.0245	378 - 388	1.2389	1.2246	1.2367	1.6	1.2341	1.4	1.2477	-0.8	-
SDR†	-	1.45533	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9984	+0.0007	983 - 984	0.9984	0.9980	-	-	-	-	-	-	-
Brazil	(R)	0.9215	+0.002	200 - 230	0.9270	0.9230	-	-	-	-	-	-	-
Canada	(C$)	1.3902	-0.0001	899 - 904	1.3919	1.3880	1.3919	-1.5	1.3955	-1.5	1.418	-2.0	81.8
Mexico	(New Peso)	3.3993	+0.0012	968 - 018	3.4020	3.3950	3.4003	-0.4	3.4021	-0.3	3.4095	-0.3	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	96.8
Pacific/Middle East/Africa													
Australia	(A$)	1.3692	+0.001	687 - 697	1.3740	1.3631	1.3695	-0.3	1.3696	-0.1	1.3733	-0.3	85.7
Hong Kong	(HK$)	7.7278	-0.0003	275 - 280	7.7282	7.7270	7.7273	0.1	7.7298	-0.1	7.7441	-0.2	-
India	(Rs)	31.3713	+0.0013	675 - 750	31.3750	31.3675	31.4513	-3.1	31.5963	-2.9	-	-	-
Japan	(Y)	97.3850	-1.21	300 - 000	98.5500	97.3200	97.14	2.8	96.67	2.9	94.035	3.4	152.1
Malaysia	(M$)	2.5903	-0.0064	898 - 908	2.5980	2.5890	2.5828	3.5	2.5793	1.7	2.6103	-0.8	-
New Zealand	(NZ$)	1.6588	-0.0029	578 - 598	1.6614	1.6532	1.6606	-1.3	1.6652	-1.6	1.6869	-1.7	-
Philippines	(Peso)	26.6000	-0.35	500 - 500	26.9000	26.3500	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7504	-	502 - 505	3.7505	3.7502	3.751	-0.2	3.753	-0.3	3.7657	-0.4	-
Singapore	(S$)	1.5130	-0.0075	125 - 135	1.5272	1.5120	1.5123	0.6	1.512	0.3	1.514	-0.1	-
S Africa (Com.)	(R)	3.6545	-0.0253	530 - 560	3.6755	3.6480	3.67	-5.1	3.6983	-4.8	3.775	-3.3	-
S Africa (Fin.)	(R)	4.6700	-0.07	600 - 800	4.7200	4.6600	4.7037	-8.7	4.7625	-7.9	-	-	-
South Korea	(Won)	805.700	+0.55	600 - 800	806.000	805.500	808.7	-4.5	812.2	-3.2	830.7	-3.1	-
Taiwan	(T$)	26.7350	+0.0055	300 - 400	26.7400	26.6485	26.755	-0.9	26.795	-0.9	-	-	-
Thailand	(Bt)	24.9500	-0.04	400 - 600	24.9600	24.9400	25.0225	-3.5	25.15	-3.2	25.63	-2.7	-

†SDR rate for Jul 8. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Jul 8. Base average 1990=100

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

EMS EUROPEAN CURRENCY UNIT RATES

Jul 11	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Netherlands	2.19672	2.14965	-0.00069	-2.14	4.82	-
Germany	1.94964	1.91609	-0.00058	-1.72	4.37	-
Belgium	40.2123	39.5266	-0.1005	-1.71	4.35	12
Ireland	0.808628	0.801886	+0.002656	-0.83	3.43	6
France	6.53883	6.58550	+0.00259	0.71	1.85	-6
Denmark	7.43679	7.54077	+0.0044	1.40	1.16	-10
Portugal	192.854	197.380	-0.229	2.35	0.22	-16
Spain	154.250	158.218	-0.583	2.57	0.00	-18
NON ERM MEMBERS						
Greece	264.513	289.384	+0.057	9.40	-6.24	-
Italy	1793.19	1904.66	-1.94	6.22	-3.43	-
UK	0.786749	0.792780	+0.003344	0.77	1.79	-

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate.

(17/9/92) Sterling and Italian Lira suspended from ERM. Adjustment calculated by the Financial Times.

■ **PHILADELPHIA SE £/$ OPTIONS** £31,250 (cents per pound)

Strike Price	CALLS Jul	Aug	Sep	PUTS Jul	Aug	Sep
1.475	8.69	8.68	8.82	-	0.02	0.58
1.500	6.24	6.39	6.88	-	0.16	1.08
1.525	3.78	4.26	4.98	-	0.52	1.93
1.550	1.60	2.55	3.36	0.26	1.25	3.14
1.575	0.31	1.30	2.12	1.46	2.49	4.74
1.600	-	0.58	1.25	3.60	4.21	6.64

WORLD INTEREST RATES

MONEY RATES

EURO CURRENCY INTEREST RATES

UK INTEREST RATES

LONDON MONEY RATES

BASE LENDING RATES

MONEY MARKET FUNDS

Money Market Trust Funds

Money Market Bank Accounts

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Jul 11 / Sch)

[illegible]

BELGIUM/LUXEMBOURG (Jul 11 / Frs.)

[illegible]

DENMARK (Jul 11 / Kr)

[illegible]

FINLAND (Jul 11 / Mks)

[illegible]

FRANCE (Jul 11 / Frs.)

[illegible]

GERMANY (Jul 11 / Dm.)

[illegible]

ITALY (Jul 11 / Lire)

[illegible]

NETHERLANDS (Jul 11 / Fls.)

[illegible]

NORWAY (Jul 11 / Kroner)

[illegible]

SPAIN (Jul 11 / Pts.)

[illegible]

SWEDEN (Jul 11 / Kronor)

[illegible]

SWITZERLAND (Jul 11 / Fr.)

[illegible]

PACIFIC

JAPAN (Jul 11 / Yen)

[illegible]

HONG KONG (Jul 11 / H.K.$)

[illegible]

MALAYSIA (Jul 11 / MYR)

[illegible]

SINGAPORE (Jul 11 / S$)

[illegible]

AUSTRALIA (Jul 11 / Aust$)

[illegible]

NORTH AMERICA

CANADA

TORONTO (Jul 11 / Can $)

4 pm close

[illegible]

MONTREAL (Jul 11 / Can $)

4 pm close

[illegible]

AFRICA

SOUTH AFRICA (Jul 11 / Rand)

[illegible]

Prices supplied by Telekurs

NOTES - Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. Highs/Lows are for 1994, except Toronto & Montreal (daily). # Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all.

FT FREE ANNUAL REPORTS SERVICE

You can obtain the current annual reports of companies annotated with ♣. Ring 081 770 0770 or fax 081 770 3822, quoting FT Japan. If calling from outside UK, dial +44 81 770 0770 or fax +44 81 770 3822, quoting FT Japan. The Reports will be sent on the next working day if [illegible] please remember to state FT Japan and also your post code.

■ TOKYO - MOST ACTIVE STOCKS: Monday, July 11, 1994

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Mitsubishi Oil	14.6m	1150	+40	Takuma Co	2.8m	2000	+40
Nippon Steel	8.1m	348	+6	Nip Formula Feed	2.7m	846	+44
Mitsubishi Hvy	4.1m	788	-12	Hitachi	2.7m	1030	-20
Chiba Bank	4.0m	905		NKK	2.3m	264	-3
Kawasaki Steel	3.8m	400	-7	Mitsubishi Elec	2.1m	891	-3

INDICES

[illegible]

	Jul 11	Jul 8	Jul 7	1994 High		1994 Low	
Japan							
Nikkei 225 (16/5/49)	20473.09	20526.51	20620.02	21552.81	13/6	17369.74	4/1
Nikkei 300 (1/10/82)	300.74	301.48	302.85	311.71	13/6	288.22	4/1
Topix (4/1/68)	1658.18	1660.88	1669.43	1712.73	13/6	1446.87	4/1
2nd Section (4/1/68)	2508.94	2527.32	2538.63	2542.85	6/7	1873.33	4/1
Malaysia							
KLSE Comp.(4/4/86)	999.96	987.78	981.37	1314.46	5/1	928.33	4/4

■ CAC-40 STOCK INDEX FUTURES (MATIF)

	Open	Sett Price	Change	High	Low	Est. vol.	Open Int.
Jul	1938.0	1954.0	+30.0	1965.0	1938.0	17,259	35,281
Aug	1948.0	1962.5	+30.5	1949.0	1949.0	-	266
Sep	1956.0	1970.0	+30.0	1979.5	1956.0	799	25,987

Open interest figures for previous day.

** Sat July 9 : Taiwan Weighted Price 6165.27; Korea Comp Ex 956.38. Base values of all indices are 100 except Australia All Ordinary and Mining - 500; Austria Traded, BEL20, HEX Gen., MIB Gen., SBF250, CAC40, Euro Top-100, ISEQ Overall: Toronto Comp./Metals & Minerals and DAX - all 1,000; JSE Gold - 255.7; JSE 26 Industrials - 264.3; NYSE All Common - 50 and Standard and Poor's - 10. §§ Montreal. ♦ Toronto. (c) Closed. (u) Unavailable. ‡ IBIS/DAX after-hours Index: Jul 11 - 2069.48 +21.63

US INDICES

Dow Jones

[illegible]

Industrials♥	523.29	521.58	518.51	599.58 (2/2)	510.05 (21/4)	599.59 (2/2/94)	3.62 (21/6/32)
Financial	44.62	44.72	44.05	48.94 (14/3)	41.39 (4/4)	48.48 (28/9/93)	8.64 (1/10/74)
NYSE Comp.	248.11	247.57	246.54	267.71 (2/2)	243.14 (4/4)	267.71 (2/2/94)	4.46 (25/4/42)
Amex Mkt Val	425.45	424.65	423.55	487.89 (2/2)	422.87 (28/6)	487.89 (2/2/94)	29.31 (9/12/72)
NASDAQ Cmp	707.46	706.53	701.01	803.93 (18/3)	693.79 (24/6)	803.93 (18/3/94)	54.87 (31/10/72)

■ RATIOS

	Jul 8	Jul 1	Jun 24	Year ago
Dow Jones Ind. Div. Yield	2.74	2.79	2.75	2.93
	Jul 6	Jun 29	Jun 22	Year ago
S & P Ind. Div. yield	2.49	2.49	2.46	2.56
S & P Ind. P/E ratio	22.72	23.10	23.18	24.89

■ STANDARD AND POORS 500 INDEX FUTURES $500 times index

	Open	Latest	Change	High	Low	Est. vol.	Open Int.
Sep	449.55	450.70	+0.80	451.00	449.15	70,231	199,273
Dec	452.40	453.20	+1.10	453.50	452.40	229	11,384
Mar	-	456.20	-	456.20	-	3	2,006

Open interest figures are for previous day.

■ NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Close price	Change on day
Ford Motor	4,314,400	30⅝	+⅜
JC Penney	3,063,900	49	+½
Chrysler	2,800,100	48⅝	-⅛
IBM	2,315,400	58⅝	-⅛
Diagnostek	2,267,000	17⅝	-4⅛
EMC Corp	2,250,700	14⅝	+⅛
Wal-Mart	2,093,500	24⅝	-⅜
Micron	2,003,400	36⅝	-⅛
Compaq	1,890,100	33⅝	-½
AutoZone	1,353,600	23⅝	-⅛

■ TRADING ACTIVITY

● Volume (million)

	Jul 8	Jul 7	Jul 6
New York SE	233.617	258.495	233.582
Amex	11.563	15.819	13.041
NASDAQ	226.073	244.837	240.211
NYSE			
Issues Traded	2,824	2,823	2,811
Rises	982	1,250	1,012
Falls	1,177	835	1,079
Unchanged	665	738	720
New Highs	37	37	28
New Lows	71	60	73

† Correction. * Calculated at 15.00 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♦ The DJ Ind. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation.

4 pm close July 11

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1994 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chge Prev. Close
17⅞	13⅞	AAR	0.48	3.5	458	319	13⅞	13¾	13⅝	
16⅞	13	A L Labs A x	0.18	1.4	30	124	13½	13¼	13¼	-⅛
70¾	57⅝	AMP	1.68	2.4	25	1419	u70⅞	70½	70¾	+⅛
72¾	52⅛	AMR			31	3890	61⅝	60½	61⅜	+⅛
6	3⅜	ARX			12	44	3⅞	3¾	3¾	
56⅛	38⅝	ASA	2.00	4.5	29	777	45¼	44⅝	44⅞	+½
31⅜	25⅜	AbbotL x	0.76	2.6	17	9204	29¾	28¾	28⅞	-.37
13¾	11⅜	Abitibi Pr	0.50	4.2	6	169	11⅞	11⅞	11⅞	
23⅝	17¾	ABM Ind	0.52	2.6		78	20	19¾	19¾	-⅛
13¾	11⅛	Acptncein			25	114	u13⅞	13½	13¾	+⅛
31	23¼	ACE Ltd	0.44	1.9	3	578	23½	d22¾	22¾	-¾
12½	10⅛	ACM Gvt In x	1.09	10.1		178	11	10⅞	10⅞	
10⅛	7⅞	ACM GvOpp	0.80	9.5		129	8⅜	8¼	8⅜	
10⅝	8¼	ACM Gvt Sp	0.96	11.8		1338	8¼	d8	8⅛	
12	9⅛	ACM Gvt Sr	1.09	11.8		493	9½	9¼	9¼	-¼
11¾	8¾	ACM Man	1.08	12.0		565	9¼	9	9	-¼
9¼	8	ACM Managd	0.72	8.7		328	8¼	8¼	8¼	
15½	8¾	AcmeCly	0.44	4.0	13	225	11¼	10⅞	11⅛	+⅜
9¼	6½	Acme Elect			5	7	8⅛	8	8⅛	
28¾	23	Acordia	0.60	2.2	13	39	27½	27¼	27¼	-½
9⅜	5¾	Actava	0.36	4.1	2	1482	8¾	8½	8¾	+¼
15⅝	11¼	Acuson			94	1318	13	12¾	12¾	-⅜
18⅜	16½	Adams Expr	0.48	2.8	0	448	17⅛	17	17⅛	
64	48½	Ad Micro	3.00	5.4		51	56½	55¼	55¾	
31¾	16¾	AdvMic	3.00	11.2	11	5541	27	26½	26⅞	+⅛
6⅞	5	Advest Grp	0.16	3.1	8	102	5⅛	5⅛	5⅛	
20	16	Advo Inc x	0.10	0.6	109	242	16½	16¼	16⅜	
57¼	49⅜	Aegon ADR	2.85	5.4	12	73	55	54½	54⅞	+1⅛
65¾	48¾	AetnaL	2.76	5.0	8	887	56	55¼	55⅛	-⅝
34⅞	25¼	Aflac	0.46	1.3	14	2006	34½	34	34⅜	+½
20¾	16⅛	Ahmanson	0.88	4.6	13	944	19½	19	19¼	-¼
4	1⅜	Aileen Inc			1	9	2¼	2⅛	2¼	
49⅞	38⅞	AirPrC x	0.98	2.2	24	3186	43⅝	42½	43⅝	+1⅛
39⅞	28¾	Airbne Frt	0.30	1.0	17	4926	29⅝	d28¾	28⅞	-⅛
27½	19¾	Airgas Inc			46	1063	26⅞	25⅞	25⅞	+⅞
16⅞	14¾	Airlease	1.84	11.6	12	29	15⅞	15⅝	15⅞	+⅛
28¾	21⅜	AirTch				6467	24⅞	24	24⅛	-¾

Continued on next page

4 pm close July 11

NYSE COMPOSITE PRICES

Continued from previous page

1994 High	1994 Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
57⅞	47⅞	StJoePaper	0.20	0.4	283	145	54⅛	53⅛	53⅞	+¼
30¼	25⅝	StJoeL&P	1.80	7.2	12	82	25⅝	d25	25⅛	-½
45	37¾	StPaul	1.50	3.7	4	1015	41⅛	40⅝	40⅞	-¼
9⅜	6	Salant Crp			8	97	6⅝	6½	6½	-¼
49⅞	35⅛	Sallie Mae	1.40	4.0	7	3414	35⅜	d34⅞	35¼	-⅛
13⅞	11⅞	Salomon Br	0.28	2.3		212	12⅜	12¼	12¼	-⅛
52¾	43¾	Salomn	0.64	1.5	5	9673	43⅝	d43	43⅜	-½
25	17½	SnDgGE	1.52	8.1	10	2959	19	18½	18⅞	+⅜
10	7½	SantaFeEts x	0.16	1.7	9	1319	9¾	9½	9⅝	-⅛
15¾	13½	SFeGd				8400	14⅛	13¾	13¾	+¼
40	31½	SantaFePac	2.80	8.1	16	136	34¾	34⅜	34⅝	-⅛
25¼	19⅛	SanFeP	0.10	0.5	10	75219	19⅝	d18½	18½	-1
26	20⅛	SaraLee	0.64	3.2	13	22282	19⅞	d19⅜	19¾	-⅜
50⅛	42⅛	Scana Corp	2.82	6.5	11	438	43⅜	43⅛	43¼	
20½	12½	Scecrp x	1.00	7.8	8	16117	12¾	12⅝	12¾	+⅛
40½	31¾	ScherenRP			24	207	32¾	32⅝	32⅝	
69⅝	54½	SchrPl	2.04	3.2	14	4612	63⅜	62⅜	63	
82⅝	50¾	Schlmb	1.20	1.9	25	5847	u62⅝	61⅝	61⅞	
33⅞	24½	Schwab(C)	0.28	1.1	11	2710	25⅜	d24⅛	24⅜	-¾
10⅜	6⅛	Schweitzer			23	84	8⅛	7⅞	8⅛	+⅛
38⅜	24⅞	SciAtl	0.12	0.4	86	850	33⅝	32⅝	33⅛	-⅜
16⅞	13	Scotman	0.10	0.7	13	128	14¼	13⅞	14¼	+⅜
53¾	37¼	ScottP	0.80	1.5	13	4343	52½	51⅝	51⅞	-½
28⅝	18⅝	ScuddrNAsF	0.21	0.9		119	22⅝	22½	22⅝	
12⅝	9½	ScuddrNEuF	0.18	1.6		419	9⅞	9⅝	9⅞	+¼
18¾	13½	SeaCnB	0.70	4.7	7	59	15	14⅝	15	+⅛
16½	14⅞	SeaC1.4625	1.46	9.8		28	15¼	d14⅞	15¼	+¼
32	28¼	Seagrm	0.56	1.9	38	4041	30¼	30⅛	30¼	
29¾	23	Seagull En			35	1348	27⅝	27	27¼	-⅛
31⅝	26⅝	Sealed Air			21	268	28¼	28	28	-⅛
55⅛	42⅛	SearsR	1.60	3.4	7	6227	48⅜	47⅛	47¾	-⅝
13¾	11¼	Seligm Sel	0.84	6.9		284	12½	12¼	12¼	-¾

AMEX COMPOSITE PRICES

4 pm close July 11

NASDAQ NATIONAL MARKET

4 pm close July 11

AMERICA

US stocks ease in wake of lower bonds

Wall Street

US share prices eased across the board yesterday morning in the wake of lower bond prices and a weaker dollar, *writes Patrick Harverson in New York.*

By 1 pm, the Dow Jones Industrial Average was down 22.34 at 3,686.50, having spent all but the first hour of trading in negative territory. The more broadly based Standard & Poor's 500 was also lower at the halfway mark, down 3.48 at 446.07, while the American Stock Exchange composite was off 0.68 at 424.77 and the Nasdaq composite down 1.14 at 706.32. Trading volume on the NYSE was light at 124m shares.

Stock prices took their cue from the bond market yesterday morning. After firming slightly at the opening, stocks soon retreated as bonds posted modest losses. The quarter-point decline in the benchmark 30-year bond was sparked by higher commodities prices and further declines in the dollar. By early afternoon the US currency was down at a new post-1945 low against the Yen, and below the DM1.54 level against the D-mark.

The fall in the dollar unsettled bonds because fixed-income investors feared it would persuade the Federal Reserve that interest rates would have to go up to protect the ailing currency. In turn, the drop in bonds perturbed stock market investors. Any selling of stocks, however, was relatively restrained, primarily because most investors believed that the Fed would not make a decision on whether to tighten monetary policy until this week's June inflation figures had been released.

Among individual stocks, McKesson was the star of the show, soaring $24⅞, or 34 per cent, to $98¼ in volume of 2.2m shares after drugs group Eli Lilly agreed to buy McKesson's retail drug distribution subsidiary, PCS Health, for $4bn in cash. The news, however, was not so well received by Eli Lilly shareholders: the company's stock dropped $7 to $50⅞.

Caterpillar continued to be the stock of choice among cyclically-minded investors. Cyclical stocks have been strong recently as buyers anticipated improved earnings in the wake of the growing economy, but none has benefited more than Caterpillar, which yesterday firmed another $1⅝ to $107⅝.

Circus Circus climbed $1⅛ to $27⅞ in busy trading as investors welcomed the news that co-founder and chairman Mr William Bennett had resigned from the troubled casino group.

Elsewhere in the casino sector, Gaming Corporation of America, a Nasdaq-quoted stock, dropped $7⅛ to $3 after the company was denied a renewal of its licence by the Wisconsin Winnebago gaming commission.

Canada

Toronto stocks were easier at midday as losses in communications, financial services and industrial products outpaced gains in precious metals.

The TSE 300 composite index was off 3.20 at 4,095.70 in light turnover of 21.5m shares valued at C$275m. Advancing and declining stocks were even at 190 each, while 256 issues were unchanged.

The communications subgroup was off 59.11 at 8,402.89. Gold and precious metals jumped 138.02 to 9,291.53.

Lac Minerals was among the most active gold stocks, gaining C$⅛ to C$12⅜ on 1.3m shares, as investors awaited further developments in Royal Oak Mines' C$2bn takeover bid.

EUROPE

Continental bourses retain forward momentum

Activity among the major equity markets on the continent was generally muted yesterday, *writes Our Markets Staff.*

PARIS ticked up another rise as the CAC-40 index added 28.97 or 1.5 per cent to 1,949.75. Turnover remained low at FFr2.5bn.

In the automotive sector Peugeot rose FFr28 to FFr789 after reporting a 12.4 per cent rise in first half car sales, Michelin improved FFr2.80 to FFr238.50 and Valeo FFr4.30 to FFr278.90.

In a review of this sector Kleinwort Benson noted that in spite of the "ephemeral and artificial" nature of a recovery in the market following the government's initiative earlier in the year to boost sales, there did seem to be an underlying trend towards recovery of registrations throughout Europe, although the risk remained that demand could dry-up in the second half.

France, and the UK, they added, stood to benefit the most.

FRANKFURT kept track of movements in the currency markets but the Dax index managed a slight increase on the day in spite of continued dollar weakness.

The Dax closed the official session up 14.81 at 2,065.66, off the session high of 2,072.99. In Ibis-indicated trading the index rose further to 2,069.46.

A number of brokers have moved to an underweight position in Germany, in spite of the equity market's outperformance of the continental average. Hoare Govett, for instance, noted in its third quarter review that while corporate earnings forecasts had become more positive, "ratings still look historically demanding".

Favouring the chemicals sector among cyclicals Hoare's also recommended an overweight position in construction which continued to be supported by rising investment in the east.

Siemens, up 50 pfennings at DM655, drew moderate interest after forecasting that 1994 earnings would be in line with year ago results. Elsewhere Mannesmann made DM1.50 to DM418.50 while Volkswagen slipped DM3.40 to DM469.60 as rumours, all of them denied, swept the market regarding the future of Mr Jose Ignacio Lopez.

AMSTERDAM moved higher with the AEX index rising by 1.40 to 387.24.

Paribas Capital Markets has maintained its neutral weighting on the market given that Dutch equities are so closely tied to dollar movements.

Paribas added that it had lowered its AEX target to 415 for the year-end and to 435 for 1995.

However, the broker said that it expected "some momentum from positive surprises in interim earnings, given the generally good first quarter results and the characteristic caution of the majority of Dutch companies".

Fokker rose 40 cents to Fl 16.10 following the announcement a cash injection of Fl 1bn.

MILAN remained becalmed in very thin trade with much of the activity technically driven by end of account considerations.

The Comit index dipped 2.57 to 634.35, the mood soured by further friction within the government coalition, and the continued absence of clear budget proposals.

Banks were mixed with some benefiting from Cariplo's last minute decision last Friday to postpone its planned flotation. Credito Italiano picked up L10 to L2,040 and IMI put on L120 to L10,650 as cash reserved for the flotation flowed back into the sector.

In the opposite direction BCI fell L99 or 2.2 per cent to L4,375: it will ask shareholders this week to approve its planned capital call.

Insurers remained under pressure as investors switched to the newly-privatised INA. Generali lost L650 to L40,000 while Fondiaria was down L15 to L12,190.

ZURICH was flat in low volume with most activity restricted to trading among professionals. The SMI index rose 2.2 to 2,562.5.

The weak dollar limited activity and weighed on shares like Ciba, SFr7 easier at SFr757, and Nestlé, up SFr3 at SFr1,096.

Roche certificates held steady at SFr6,000, supported by reported buying by BZ Bank. Roche is due to release its half-year revenue figure this week.

Elsewhere, Alusuisse saw some buying interest, rising SFr7 to SFr654 after the company announced that it had sold its Conalco US unit to Ormet for an undisclosed price.

Banking and insurance issues closed higher on buying off the lows. UBS rose SFr5 to SFr1,169 and Zurich Insurance gained SFr15 to SFr1,310.

MADRID was higher in thin trade although prices came off their highs as Wall Street opened. The General index rose 2.48 to 296.4 but trading volume of Pta17.6bn was one of the lowest recorded this year.

Among the banks, Banco Santander rose Pta165 or 3.7 per cent to Pta4,665 on expectations of an 8 per cent profits rise and Bankinter dropped Pta10 to Pta10,690 before the bank disclosed a higher than expected 9.2 per cent drop in consolidated net profit in the first half of 1994.

STOCKHOLM was helped higher by a number of positive factors, with the Affärsvärlden general index rising 22.3 to 1,378.3.

Turnover improved to SKr1.6bn from SKr1.3bn as Volvo B shares, the day's most active issue, rose SKr24 to SKr682.

WARSAW was stronger for the fifth consecutive session, with the Wig index gaining 445.9 to 9,610.0.

ISTANBUL regained most of Friday's fall to close the session up 3.3 per cent on bargain hunting.

The composite index added 682.67 to 21,106.38, although volume was reported as light.

Brokers forecast that the index could rise to the 22,000 level before encountering a resistance level.

Among the days most actives Izmir Demir Celik rose TL250 to TL2,175.

● The equity market will extend trading to four hours from Thursday, and also switch to a two-day settlement period.

Written and edited by John Pitt and Michael Morgan

FT-SE Actuaries Share Indices — THE EUROPEAN SERIES

Jul 11 / Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1327.60	1323.37	1323.15	1328.71	1326.43	1327.50	1327.06	1326.78
FT-SE Eurotrack 200	1365.53	1363.74	1365.83	1362.72	1364.31	1365.85	1366.48	1365.90

	Jul 8	Jul 7	Jul 6	Jul 5	Jul 4
FT-SE Eurotrack 100	1316.03	1320.32	1312.04	1316.56	1326.67
FT-SE Eurotrack 200	1354.94	1358.40	1349.68	1354.71	1365.52

Base 1000 (26/10/90) High/day: 100 - 1328.86; 200 - 1367.84 Low/day: 100 - 1323.09 200 - 1358.60

MARKETS IN PERSPECTIVE

	% change in local currency †				% change sterling †	% change in US $ †
	1 Week	4 Weeks	1 Year	Start of 1994	Start of 1994	Start of 1994
Austria	-1.49	-2.34	+16.22	-8.82	-3.57	+0.37
Belgium	+0.46	-4.66	+5.22	-7.86	-1.44	+2.59
Denmark	-1.01	-2.72	+14.16	-4.36	+0.86	+4.98
Finland	+4.34	+3.69	+38.26	+10.43	+18.02	+22.62
France	+2.12	-5.13	+0.67	-14.19	-9.95	-6.27
Germany	+0.66	-3.54	+12.32	-10.14	-4.76	-0.86
Ireland	+3.11	-2.23	+12.84	-6.11	-2.57	+1.41
Italy	+1.32	-8.91	+22.03	+11.37	+17.20	+21.97
Netherlands	+0.59	-4.77	+10.05	-8.35	-3.12	+0.83
Norway	+0.21	-0.84	+15.68	-2.84	+1.62	+5.76
Spain	-1.76	-10.47	+8.88	-11.74	-6.94	-3.14
Sweden	+0.28	-7.30	+18.78	-4.47	-1.80	+2.21
Switzerland	-1.27	-7.05	+8.84	-11.77	-5.10	-1.23
UK	+0.88	-3.21	+4.37	-12.80	-12.80	-9.24
EUROPE	+0.87	-4.70	+7.73	-10.29	-7.15	-3.36
Australia	-0.33	-5.47	+10.38	-9.12	-5.98	-2.15
Hong Kong	-2.21	-8.00	+19.34	-29.80	-32.56	-29.81
Japan	-0.14	-2.79	+4.83	+14.04	+24.05	+29.11
Malaysia	-0.24	-2.09	+39.95	-24.89	-25.13	-22.08
New Zealand	-0.62	-7.79	+15.12	-9.90	-6.88	-3.08
Singapore	-1.85	-5.37	+22.13	-16.28	-14.88	-11.41
Canada	+1.92	-2.81	+6.23	-3.97	-12.13	-8.55
USA	+0.71	-1.99	-0.16	-3.47	-7.25	-3.47
Mexico	+3.24	-3.41	+44.21	-9.79	-20.78	-17.55
South Africa	+0.38	-3.59	+32.56	+10.68	-3.76	+0.16
WORLD INDEX	+0.36	-3.16	+4.63	-1.77	-0.29	+3.78

† Based on July 8th 1994. Copyright, The Financial Times Limited, Goldman, Sachs & Co.,and NatWest Securities Limited.

With a few exceptions the world's equity markets performed relatively strongly last week, although the Asia/Pacific region again came out badly as worries over US interest rates remained on investors' minds.

Goldman Sachs, in its latest investment strategy report, has *slightly increased its weighting in Hong Kong and Singapore*, at the expense of Europe, for two reasons. Firstly, the *fact that recent Chinese economic data has pointed to a* gradual slowing of inflation and industrial output, which may "somewhat allay investor concern about the country's medium-term economic outlook". Secondly, Hong Kong's valuation levels are presently attractive, while corporate earnings in Singapore should be positive since GDP growth there has been better-than-expected.

ASIA PACIFIC

Uncertainty over North Korea takes toll on region

Tokyo

Shares posted small losses in low volume as investors remained inactive due to uncertainty over the North Korean situation and the movement of the yen, *writes Emiko Terazono in Tokyo.*

The Nikkei average closed down 53.42 at 20,473.09 after a low of 20,369.07 in the morning and a high of 20,534.51 just before the close. Domestic and foreign traders were initially braced for heavy selling due to political uncertainty on the Korean peninsula following the death of President Kim Il Sung at the weekend, but were surprised after most investors failed to react. Late afternoon arbitrage selling, however, eroded earlier gains.

Volume was 210m shares against 342m. "People who were expecting a sell off and were waiting to buy shares at lower prices were disappointed and failed to join the activity," said Mr Yasuo Ueki at Nikko Securities.

The Topix index of all first section stocks fell 4.72 to 1,656.16 and the Nikkei 300 lost 0.74 to 300.74. On the first section, 653 issues declined while 301 advanced, with 209 issues remaining unchanged.

In London, the ISE/Nikkei 50 index fell 0.39 to 1,343.73.

Consumer spending related stocks were up on hopes of a rise in consumer purchases due to the hot summer weather. A sharp rise in sales of summer items such as air conditioners, summer clothing, and beer, has been encouraging investors, and prompting some Japanese economists to call the current heat wave a "divine wind".

Among retailers Takashimaya rose Y50 to Y1,530 and Matsuya Y20 to Y685, while Kirin Brewery, the leading beer manufacturer, added Y20 to Y1,240.

Mitsubishi Oil, the most active issue of the day, rose Y40 to Y1,150. Reports that the company had discovered a second oil field of Vietnam helped to fuel interest.

Large capital stocks were sold on profit-taking. Kawasaki Steel fell Y6 to Y348 and Mitsubishi Heavy Industries declined Y12 to Y788. Electricals were also weaker, with Hitachi down Y20 to Y1,030 and Toshiba falling Y8 to Y801.

In Osaka, the OSE average fell 93.35 to 23,018.65 in volume of 17.6m shares. Nintendo, the video game maker, fell Y100 to Y6,890 on profit-taking.

Roundup

Seoul was unnerved by developments in North Korea, but elsewhere the region could find few fresh investment incentives.

SEOUL was overshadowed by uncertainty following the death of North Korean president Kim Il-sung, although the composite index recovered from an early 2.1 per cent fall to finish 7.54 lower at 948.64.

The early decline was the result of a lack of immediate information about the heir, Kim Jong-il, together with news of the indefinite postponement of the scheduled summit.

One analyst commented that the outlook for the Seoul market was one of heightened uncertainty in coming months from a political view, but with much more realistic prospects of economic benefits from a more open policy in the North in the long run.

Trading houses, which had recently gained momentum on hopes of bettering North-South relations, lost ground more than other shares. Its sub-index shed 23.97 to 734.99.

TAIPEI saw intensified buying in the heavily weighted financial sector in the last minutes of trading which pushed the market 2.1 per cent higher, although some brokers noted increasing profit-taking.

The weighted index rose 127.73 to 6,313.00, but turnover fell to T$68.66bn from T$85.38bn in Saturday's short session.

The financial sector added 3.9 per cent, with China Development up T$6 to T$162. Petrochemicals also saw strong buying because product prices have been rising in recent weeks.

SYDNEY finished close to a 10 month low, the All Ordinaries index dipping 3.7 to 1,961.2, with a lack of local economic news and conflicting influences from other bourses making for lacklustre trade.

The day was punctuated by activity surrounding Bridge Oil, which fell 1 cent to 90 cents with 12m shares changing hands as Parker & Parsley Petroleum built its stake.

WELLINGTON fell to a year's low, driven more by lack of interest than specific factors, and the NZSE-40 capital index closed down 10.42 at 1,945.51.

Analysts commented that the strength of the local currency, at a 40-month high, was a negative for some exporters, but helped to support interest rates.

But confirmation from Westpac Bank that mortgage interest rates were on the rise came as little surprise and was expected to have only a minor negative impact on equities.

MANILA fell 1.6 per cent in the absence of fresh incentives. The composite index fell 40.1 to 2,543.75.

HONG KONG remained aimless, the Hang Seng index giving up another 38.02 to 8,394.94 in turnover that fell to HK$1.78bn from Friday's HK$2.60bn.

Recently steady utilities fell victim to profit taking and suffered the heaviest losses. Hong Kong Telecom, an index heavyweight, dipped 20 cents to HK$13.80, China Light dropped 30 cents to HK$37.20 and China Gas eased 15 cents to HK$13.15.

SINGAPORE closed lower with interest in Malaysian shares traded over the counter quickly waning as investors turned cautious. The Straits Times Industrials index closed 11.69 lower at 2,151.25.

On Friday, a late spate of buying in OTC shares was seen following a recycling of old rumours that an early Malaysian general election was about to be announced.

KUALA LUMPUR gave up early gains and closed mostly lower on profit-taking although the composite index put on 1.18 to 988.88, bolstered by a 1.61 gain in Genting, the casino owner.

BANGKOK was in negative territory throughout the day on concerns about US interest rates. The SET index closed 8.97 lower at 1,278.37, up from the day's low of 1,273.08.

KARACHI saw profit-taking on settlement day as brokers offloaded blue chips fearing that the market's retreat was gathering pace. The 100-share index fell 35.14 or 1.6 per cent to 3,227.62.

S Africa edges ahead

Johannesburg concluded a slow session generally higher amid support from a firmer gold price although the strength of the financial rand capped gains.

After losing initially, the overall index added 14 to *5,419, industrials gained 12 to* 6,261 and gold put on 16 to 2,076.

De Beers ended 75 cents *lower as the firmer financial* rand took its toll on rand prices, while Anglos lost R2.75 to R221.50.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Ltd., Goldman, Sachs & Co. and NatWest Securities Ltd. in conjunction with the Institute of Actuaries and the Faculty of Actuaries

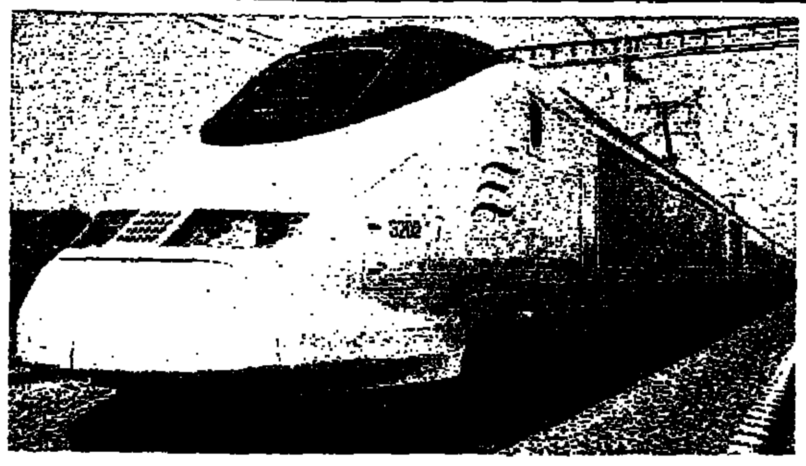
NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	FRIDAY JULY 8 1994 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	THURSDAY JULY 7 1994 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (69)	163.29	0.3	157.22	101.75	133.63	148.60	0.1	3.71	162.77	156.71	101.68	133.24	148.45	189.15	138.28	138.46
Austria (17)	*185.68*	*0.5*	*178.75*	*115.68*	*151.93*	*151.65*	*0.3*	*1.05*	*184.71*	*177.64*	*115.61*	*151.20*	*151.32*	*195.41*	*147.30*	*147.50*
Belgium (37)	166.86	-0.2	160.65	103.97	136.55	133.90	-0.4	4.13	167.25	161.03	·104.68	136.91	134.40	176.67	143.82	146.81
Canada (106)	124.18	0.4	119.56	77.38	101.63	125.02	0.5	2.71	123.69	119.09	77.42	101.25	124.39	145.31	120.54	126.78
Denmark (33)	259.52	0.1	249.86	161.71	212.38	218.51	0.0	1.36	259.16	249.51	162.20	212.14	218.47	275.79	207.58	214.19
Finland (24)	151.32	0.4	145.69	94.29	123.84	165.34	-0.1	0.86	150.76	145.15	94.36	123.40	165.48	156.72	95.42	99.76
France (97)	*164.92*	*0.2*	*158.79*	*102.76*	*134.96*	*139.86*	*0.0*	*3.20*	*164.64*	*158.51*	*103.04*	*134.77*	*139.81*	*185.37*	*149.60*	*152.97*
Germany (56)	139.03	0.2	133.85	86.63	113.77	113.77	0.2	1.82	138.73	133.57	86.83	113.56	113.56	147.07	112.69	114.30
Hong Kong (56)	343.46	-0.5	330.69	214.02	281.08	340.78	-0.5	3.48	345.20	332.36	216.06	282.58	342.52	506.56	271.42	286.97
Ireland (14)	187.82	0.0	180.83	117.03	153.70	173.87	0.1	3.51	187.75	180.76	117.51	153.69	173.65	209.33	155.93	155.93
Italy (60)	83.66	-0.1	80.55	52.13	68.47	97.86	-0.6	1.62	83.76	80.65	52.43	68.57	98.19	97.78	57.88	68.54
Japan (469)	*168.01*	*0.0*	*161.76*	*104.69*	*137.50*	*104.69*	*-0.5*	*0.73*	*168.02*	*161.77*	*105.16*	*137.54*	*105.16*	*170.10*	*124.54*	*145.46*
Malaysia (98)	460.95	1.4	443.81	287.23	377.23	460.99	1.4	1.77	454.56	437.64	284.50	372.09	454.68	621.83	322.60	333.29
Mexico (18)	1966.78	1.4	1895.51	1226.75	1611.15	7314.61	1.3	1.83	1942.03	1869.77	1215.49	1589.67	7219.29	2647.06	1486.21	1486.21
Netherland (27)	200.76	0.0	193.29	125.09	164.30	161.76	-0.2	3.51	200.76	193.31	125.67	164.35	162.02	207.43	164.59	168.08
New Zealand (14)	65.82	0.1	63.37	41.01	53.86	58.06	-0.5	4.12	65.72	63.28	41.14	53.80	58.39	77.59	51.62	52.30
Norway (23)	*189.99*	*-0.9*	*182.92*	*118.38*	*155.48*	*178.18*	*-0.9*	*1.86*	*191.66*	*184.53*	*119.96*	*156.89*	*179.86*	*206.42*	*156.74*	156.75
Singapore (44)	325.59	1.0	313.48	202.88	266.46	228.14	1.0	1.85	322.46	310.47	201.83	263.96	225.95	378.92	244.27	249.52
South Africa (58)	267.69	0.5	257.63	166.74	218.98	277.23	-0.1	2.29	266.31	256.40	166.68	217.99	277.35	284.68	175.93	207.79
Spain (42)	134.97	1.1	129.95	84.10	110.45	133.17	0.8	4.34	133.45	128.49	83.53	109.24	132.11	155.79	116.33	123.37
Sweden (36)	200.70	0.9	193.23	125.06	164.25	231.47	0.3	1.73	198.92	191.52	124.51	162.84	230.84	231.35	166.36	166.36
Switzerland (47)	*158.17*	*-1.1*	*152.29*	*98.56*	*129.44*	*130.08*	*-1.1*	*1.87*	159.96	154.01	100.12	130.94	131.66	176.56	124.46	126.19
United Kingdom (205)	186.11	-0.1	179.18	115.97	152.31	179.18	-0.1	4.20	186.24	179.31	116.57	152.45	179.31	214.98	170.32	173.17
USA (519)	*183.32*	0.2	176.50	114.23	150.02	183.32	0.2	2.92	182.67	176.07	114.46	149.69	182.67	196.04	178.95	183.60
EUROPE (720)	163.88	0.0	157.79	102.11	134.11	148.07	-0.1	3.15	163.90	157.81	102.59	134.17	148.24	178.58	142.48	144.02
Nordic (116)	*201.00*	*0.5*	*193.52*	*125.24*	*164.49*	*197.52*	*0.1*	*1.51*	*200.01*	*192.56*	*125.18*	*163.72*	*197.38*	*220.80*	*180.26*	160.71
Pacific Basin (750)	173.70	0.0	167.24	108.23	142.15	113.42	-0.4	1.05	173.64	167.18	108.68	142.14	113.82	175.87	134.79	149.48
Euro-Pacific (1470)	169.44	0.0	163.14	105.58	138.66	127.58	-0.3	1.90	169.42	163.11	106.03	138.66	127.92	170.78	143.88	147.12
North America (625)	179.65	0.2	172.97	111.94	147.02	179.32	0.2	2.92	179.20	172.53	112.16	146.69	178.86	192.73	175.67	180.06
Europe Ex. UK (515)	148.13	0.0	142.62	92.30	121.22	129.20	-0.1	2.53	148.11	142.60	92.70	121.24	129.38	157.47	124.77	125.66
Pacific Ex. Japan (281)	233.29	0.3	224.61	145.36	190.92	209.52	0.2	3.05	*232.59*	223.94	145.56	190.40	209.09	296.21	164.93	188.79
World Ex. US (1653)	170.16	0.1	163.83	106.03	139.25	130.80	-0.2	1.93	170.08	163.75	106.45	139.22	131.09	172.81	145.58	147.86
World Ex. UK (1967)	*172.28*	0.1	165.87	107.35	140.99	143.92	-0.1	2.08	172.05	165.65	107.68	140.83	144.01	175.56	155.96	*157.45*
World Ex. So. Af. (2113)	172.96	0.1	166.52	107.77	141.54	146.22	-0.1	2.27	172.77	166.34	108.13	141.42	146.31	178.56	158.36	158.62
World Ex. Japan (1703)	178.88	0.2	172.22	111.46	146.39	171.24	0.1	2.99	178.57	171.93	111.77	146.17	171.03	196.20	166.51	167.80
The World Index (2172)	173.52	0.1	167.07	108.12	142.00	147.20	-0.1	2.27	173.32	166.87	108.48	141.86	147.29	178.97	158.58	158.86

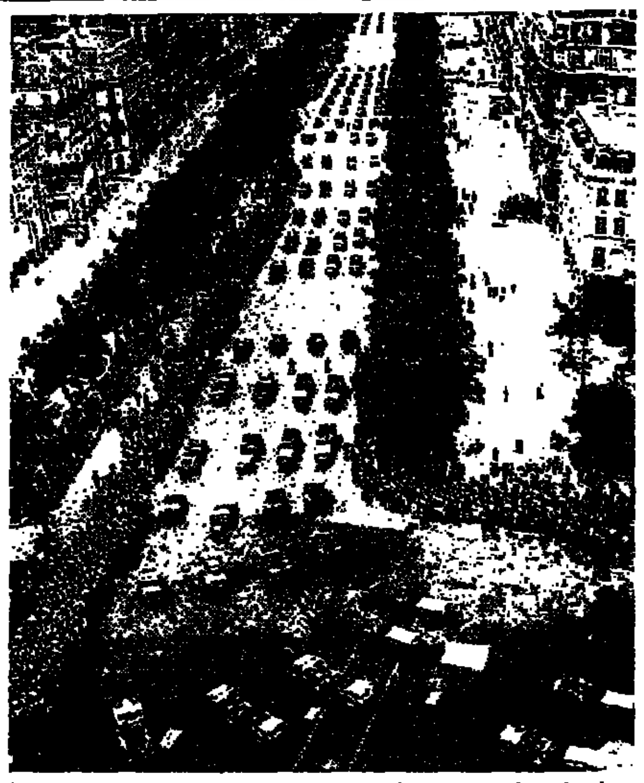
Copyright, The Financial Times Limited, Goldman, Sachs and Co. and NatWest Securities Limited. 1987
Constituent change with effect 12/7/94: Deletion: Smith (W.H.) 'B' (U.K.). Latest prices were unavailable for this edition.

FINANCIAL TIMES SURVEY

FRANCE

Tuesday July 12 1994





Images of France: above, the liberation of Paris in August 1944, showing cheering Parisians on the Champs Elysées as American troops parade to the Arc de Triomphe. L-R, EuroDisney, the TGV, and President Mitterrand

A revolution in a state of slow motion

Mr Balladur is carrying on with labour, tax and welfare reforms and privatisation, but full economic recovery may not come in time for the presidential election next spring. David Buchan reports

France is still in a state of slow motion, before the burst of activity that will come with next May's presidential election and the French presidency of the European Union from January 1 nest year.

This impression of slow motion derives in part from the economy, recovering only very gradually from the 1993 recession, and in part from the current division of power between the lame-duck Socialist president, François Mitterrand, and the cautious conservative Prime Minister Edouard Balladur, a division that militates against bold policy moves.

But there is also the picture of the various presidential rivals, at this stage only circling around, each determined to be ready for the final sprint towards the Elysée but not wanting to be seen to jump the gun. However, one dramatic change in the line-up has occurred, with Mr Michel Rocard being removed from the Socialist starting-block after his poor showing in the preliminary heat of the June 12 Euro-election. The man chiefly responsible for spiking him on the Euro-track was Mr Bernard Tapie, the maverick populist whose Energie Radicale list gained more than 12 per cent of the Euro-vote – only a couple of percentage points behind the Socialists, who dropped to their lowest electoral level since the 1960s.

The Socialists' awful performance, plus the fact that the new Socialist leader, Mr Henri Emmanuelli, is not a serious Elysée runner, has had two contradictory knock-on effects on France's governing conservatives, who won nearly 80 per cent of seats in the 1993 parliamentary election.

The first has been to increase the number of presidential hopefuls on the right, making them believe that almost any conservative could beat a socialist for the Elysée.

For instance, despite his low public rating these days, ex-President Valéry Giscard d'Estaing, leader of the centre-right UDF federation, refuses to rule out that he might seek to re-occupy the office he left 13 years ago. Socialist weakness has also given Mr Jacques Chirac, leader of the RPR Gaullists, fresh hope that, after failing to win the presidency in 1981 and 1988, he might be lucky the third time.

But the possibility that the Socialists might eventually field Mr Jacques Delors, after he returns to France at the end of this year from his decade in Brussels, introduces an element in Mr Balladur's favour. It is far from sure that the outgoing European Commission president will respond to the entreaties of the "Draft Delors" movement among the Socialists; apart from anything else, he would want to avoid a disastrous electoral flop which might jeopardise the career of his daughter, Mrs Martine Aubry, a rising star in the French socialist firmament. But if he threw his hat in the ring, Mr Delors is the one Socialist who, according to the polls, would come near to beating Mr Chirac in the final run-off presidential race.

In the endless opinion polls by which the French constantly take their political temperature, only Mr Balladur still appears to outdistance Mr Delors. That is his trump card in his increasingly acid rivalry with his former patron, Mr Chirac, to carry the conservative colours into battle next year. Mr Balladur's moderate Gaullism and consensual nature fits him better to compete with Mr Delors, a centrist socialist, for the vital middle ground of French politics.

For precisely that reason, Mr Balladur is almost more popular in the UDF than in his own RPR party. These two parties reflect a cleavage that goes back to the Revolution, with RPR "Jacobins" who believe in a strong central government and the UDF "Girondists" who believe in a more decentralised system and economic liberalism (always a relative term in France). It is therefore unlikely that Mr Balladur, even as president, could ever bring them together in a single unified conservative party.

But from the day he became prime minister of a government with 16 UDF ministers and only 13 ministers from his own RPR ranks, Mr Balladur has been clearly angling for UDF endorsement for his presidential candidacy. And he will probably get it, at least from the UDF's largest constituent party, the Republicans.

This party has itself been split by the highly successful campaign that one of their number, Mr Philippe de Villiers, ran on an anti-Maastricht ticket in the European Parliament elections, winning Euro-seats for himself, Sir James Goldsmith, the Anglo-French financier, and 11 others. But, in general terms, the Republicans are increasingly restive under the nominal tutelage of Mr Giscard d'Estaing, who has himself drifted closer to the Christian Democrats within his federation, because they are more in tune with the ex-President's strong pro-Europeanism.

In French presidential races, party labels are never very important anyway. The Elysée is won on a candidate's ability to act as a *rassembleur*, or builder of coalitions. The run-up to a presidential election, therefore, is generally considered not the right time to launch bold new initiatives. And Mr Balladur has no quarrel with this conventional wisdom, because it accords with his own innate caution.

Mr Balladur has had his caution reinforced by two policy blunders over the past year. To most foreigners, neither initiative seemed very daring, but both triggered an explosive domestic reaction.

At the turn of the year, the government passed a bill allowing local authorities the possibility of meeting some of the capital expenditure of private schools. (Under a long-standing concordat between church and state, the latter pays almost all teacher salaries of private schools.) Fearing this would end in neglect of state schools, several hundred thousand demonstrators took to the streets. The government backed down.

Exactly the same pattern was repeated later over a government law, allowing employers the possibility of paying young apprentices less than the so-called Smic national minimum wage provided they spent the saving on training. There followed uproar from the unions, street protests by students, silence from cowed employers – and Mr Balladur finally said that he would pursue his aim of trying to price young people into jobs by paying employers a direct subsidy to hire them.

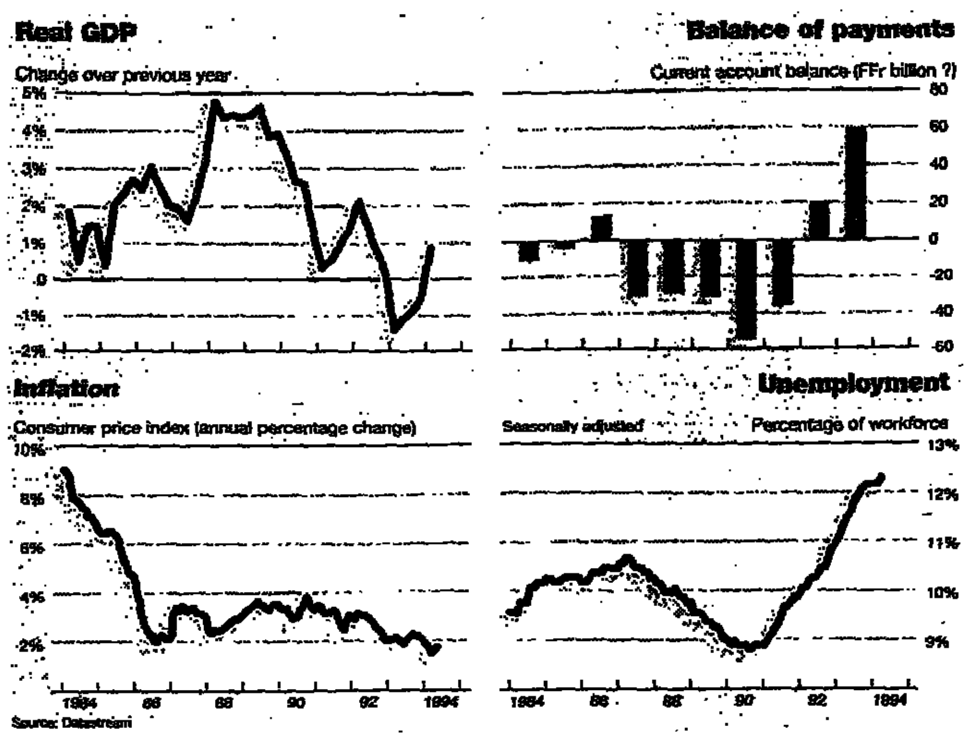
Part of the problem lies in France's ineffectual parliament, where measures are nodded through, leaving the real debate for the streets. In a classic gaullist response, RPR leaders such as Mr Chirac and Mr Philippe Séguin (ironically, president of the National Assembly) propose putting measures to combat unemployment to a referendum.

The upshot is that Mr Balladur resembles a man walking on eggs as he continues his "reforms". Privatisation has slowed down, partly because the stock market's state is not propitious for new flotations but also because he does not want to tangle with the unions, who remain strong in state companies such as Renault. To French capitalism's long term detriment, the much mooted creation of capitalised private pension funds has been put on ice, for fear of alerting people to the inadequacies of the state pension system and alarming them.

Only in fiscal and macro-economic policy does Mr Balladur seem to be plugging on with his original aims. His goal is to see the budget deficit decline from FFr 320bn last year to FFr 301bn this year, to FFr275bn next year. If realised, this will be a considerable achievement, given that he is also reducing social payroll charges on the lower-paid to try to stimulate employment. It will also require nerve, given the temptation to loosen budget strings in an election year.

His end-game is to get the deficit down to 2.5 per cent of gdp (nearly half the present ratio) by 1997, to preserve for France the option of being able to join any European monetary union created then.

IN THIS SURVEY



Source: Datastream


The new ministry of the economy and finance at Bercy Ashley Ashwood

John Ridding reviews an economy on the mend

Up off the floor

The French economy is on the mend.

A stream of industrial production and consumption data over the past few months, and a 0.5 per cent increase in first quarter Gross Domestic Product, show that recession has now been left behind. But the statistics also reveal a pattern of hesitant recovery, struggling to find momentum.

Not surprisingly, the government has been quick to welcome the emergence of green shoots. "Our predictions of recovery from the beginning of the year have been proved correct," says one official at the economy ministry. Mr Edmond Alphandéry, the economics minister, greeted the first quarter results with a prediction of faster growth to come.

Many private sector economists have also revised upwards their forecasts for the French economy.

Beginning of year estimates that GDP would expand by about 1 per cent have been edged up nearer the 2 per cent mark. Mr Bernard Godement, chief economist at the Nomura Research Institute in Paris, is predicting growth of 1.9 per cent this year, and just under 3 per cent in 1995. Mr Alphandéry has indicated that he is likely to raise the government's own forecast from 1.4 per cent for 1994.

If there is consensus, however, that recovery is under way, there is less agreement on the composition and quality of growth and on progress towards resolving the structural problems of the economy. Of particular importance are actions to reduce the budget deficit and the level of unemployment which, at a rate of 12.7 per cent, is one of the highest among industrialised economies.

With unemployment expected to stabilise at its current level, and to start falling from the year's end, consumers will be more inclined to spend

The government has argued that recovery will be based on a rise in exports, investment and consumption. But the economy has yet to fire on all cylinders. "We have moved from a phase of deterioration in the economy to one of improvement," says Mr Ernest Antoine Selliere, vice president of the Patronat employers' organisation, "but recovery is slow, partial and fragile."

Consumption has shown improvement, partly because of special fiscal or budgetary incentives. In February, for example, car owners who traded in vehicles more than 10 years old to buy new ones received FFr5,000 of assistance from the government. Car sales boomed, providing a boost to consumption and industrial production statistics.

Such measures are temporary and, in the case of the car bonuses, have already weakened significantly. But further fiscal measures, such as tax cuts which take effect in the summer, should maintain the upward trend in spending.

So far, revival is less clear with respect to investment. Mr Jean-Francois Mercier, economist at Salomon Bros, points out that while first quarter growth was increased by a sharp reduction in stocks, there is still little evidence of a substantial pick-up in new investment.

Exports, which resisted the impact of recession relatively well, have been sluggish. "There is some improvement in exports if you take a rolling average," says Ms Esther Baroudy, senior economist at Crédit Lyonnais Capital Markets. "But at the moment we are not experiencing a strong export-led recovery." Economists at Insee, the French national statistics office, report a healthy increase in export orders in the second quarter, but the contribution to GDP growth could be offset by rising imports.

Despite such caution, there are grounds for optimism.

With unemployment expected to stabilise at its current level, and to start falling from the end of this year, consumers will be more inclined to spend without the carrot of government incentives.

Mr Patrick Artus, chief economist at the Caisse des Depots et Consignations, the powerful state financial institution, argues that the strong financial situation of the corporate sector, which is currently a significant net lender, will help stimulate investment. For most economists, this increase in investment spending will gather strength from the second half of this year.

But whether France achieves a sustained recovery will depend partly on factors outside its control, and on its own success in tackling deep-rooted structural problems.

On the first count, the most direct effect will come from recovery in its economic partners, and in particular from Germany, its largest trading partner. Stronger growth across the Rhine will combine with recovery in the US and Britain to support French exporters.

But the international environment also gives cause for concern. In particular, the turmoil in international bond markets over the past few months has prompted a rise in long term interest rates.

Since the beginning of this year, yields on 10-year French bonds have climbed steadily upwards, from about 5 per cent, to breach the 7 per cent level.

During last summer's exchange rate crisis, which shattered the narrow bands of the European exchange rate mechanism, French monetary and economic officials provided a stream of arguments to the effect that it is long term interest rates, rather than the short term rates with which the markets were then obsessed, that dictate the health of the French economy. Recent movements on the yield curve would suggest, therefore, that there are grounds for concern.

Mr Alphandéry, along with officials from the newly independent Bank of France, have sought to play down the threat to French growth from the bond markets. They argue that with inflation running at a meagre annual rate of less than 2 per cent there is little justification for the pressure on long term yields and that the markets will stabilise. That may be true. But a sustained rise in long term yields, combined with a fall in the dollar, could dampen recovery.

In the longer term, it is structural considerations whichloom largest. Mr Balladur has sought to increase the flexibility of the labour market through measures to encourage training and reduce the costs of employment.

He has had some success. The first quarter of this year saw the first growth in employment since 1990. But other initiatives, such as an attempt to reduce the minimum wage for young apprentices, have been abandoned in the face of strong protests. Without further reforms, there is a danger that the underlying rate of unemployment will again rise through the economic cycle.

Equally important is the task of curbing the public sector deficit. Mr Balladur's administration has set itself a five-year plan to reduce the deficit, and so far it is on target. Mr Nicolas Sarkozy, the budget minister, believes the central budget deficit can be brought below FFr300bn this year, compared to the FFr317bn recorded last year.

Of greater concern, however, are the deficits on social security expenditure and local government finance. Taking these items into account, the total public sector deficit is equivalent to about 6 per cent of GDP.

With the approach of presidential elections, scheduled to be held next spring, fiscal rigour may be increasingly hard to maintain. Mr Balladur says he is committed to bringing the public finances into line – an objective which will be facilitated by broader economic recovery. But failure to implement structural reforms, from the labour market to the establishment of a private pensions fund system, would mean that recovery may only mask the economy's ills.

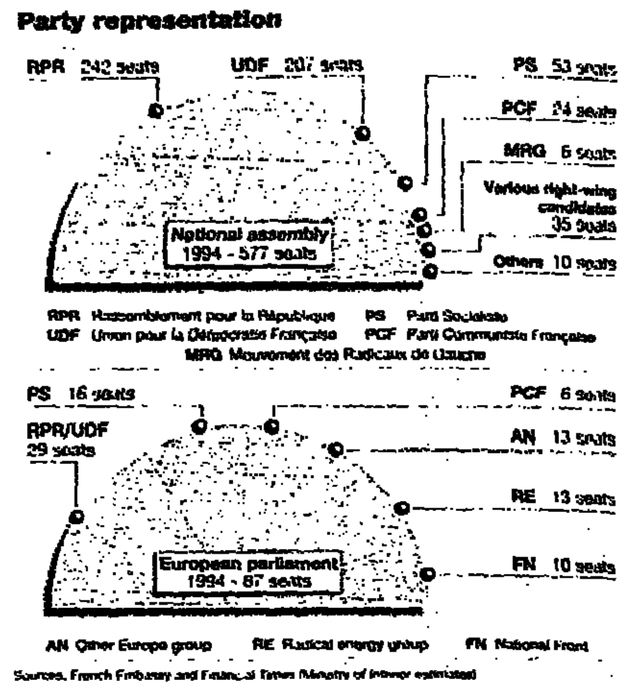

Balladur: opinion poll favourite

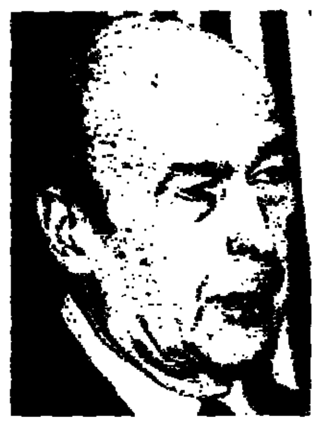
Presidential hopefuls

The first round, on April 23, in next year's election to succeed President Mitterrand in the Elysée will attract the usual mixture of mainstream and fringe candidates from which the two top scorers – usually but not invariably one from the right and one from the left – will go on to the decisive May 7 run-off.

Vying for the gaullist nomination are Mr Jacques Chirac, and prime minister Edouard Balladur, who tops all rivals in the opinion polls. Ex-President Valéry Giscard d'Estaing still hankers after the Elysée which he won 20 years ago. If he stands, he may face a generational challenge from within the UDF by Mr François Léotard, the defence minister.

The Socialists ousted Mr Michel Rocard because of his bad performance in the June Euro-election. Many left wingers are now entreating Mr Jacques Delors to carry their colours into battle.




D'Estaing: UDF former President


Chirac: RPR Gaullist leader


Léotard: defence minister

Policy towards Europe has been quietly modified

Maastricht warfare

France's conservative government has quietly modified its policy on Europe, but not on the aims it wants the European Union to pursue.

Paris still retains its across-the-board ambitions for Europe to assert itself commercially and culturally in the world – if necessary against the US and Japan – to be the predominant geo-political force in its region of the world; to build something close to a European army that could be deployed independently of the US; and keep alive the possibility of economic and monetary union by the end of the decade.

But the French government has shifted its position on how it wants these goals to be fulfilled.

Most importantly, it says it wants a less political role for the European Commission, which should remember that it is merely the EU's executive, at the bidding of EU governments whose autonomy in many areas should be better respected in the name of subsidiarity. As Mr Jacques Chirac, leader of the RPR gaullists, puts it: "The Commission should remember that only the Council of Ministers has true political legitimacy".

If that sounds like a phrase out of one of UK prime minister John Major's speeches, it is because the French right has gone through the same debate about Europe as its British counterpart (in a lower key) and it has come to some of the same conclusions.

In France's 1992 Maastricht referendum campaign, the Commission became the butt of much anti-Maastricht criticism, and remained so because France accused it of exceeding its negotiating instructions in the Gatt farm trade deal it struck with Washington. If evidence were needed that the Battle of Maastricht is still not over, it was provided last month by the success of Mr Philippe de Villiers and his anti-Maastricht dissident conservatives in winning 13 seats in the European Parliament.

If, then, many French would agree with Mr Douglas Hurd, the UK foreign secretary, that there is no longer any place for "philosopher kings" such as Mr Jacques Delors in the Commission, why did the UK end up vetoing the choice of France, Germany and eventually nine other EU countries, to succeed Mr Delors? This row was particularly revealing of the limits to Anglo-French convergence on European policy.

While France saw in the Belgian prime minister Jean-Luc Dehaene's avowed federalism the right kind of managerial type to broker the Belgian-style compromises which will be needed to keep an enlarged EU together, Mr Major saw only the trouble the Belgian's avowed federalism could bring him within his own Tory party. But the UK also claimed to want to warn Paris and Bonn that they could not foist their choice on others. For it may be that the logic of France's new European policy will lead Paris and Bonn to step more into the Commission's guiding role.


Delors: left wing standard bearer

Elsewhere, Paris wants to:

● Put the Commission on a tighter rein in negotiating trade agreements. However, when it comes to anti-dumping policy, Paris has shown itself happy for the Commission to have a certain leeway from the Council of Ministers, where often a group of "free traders", such as the UK, the Netherlands and Germany, often block such action;

● Increase the standing of the EU presidency in the conduct of foreign policy and improve the co-ordination of the policies of the 12 member states through some means other than the Commission.

● Put some substance into EU foreign policy. This was the aim of the "conference on stability in Europe", which prime minister Edouard Balladur initiated in Paris in May. Whether it succeeds in getting East European countries to settle ethnic and minority problems by reaching "good neighbour" accords with each other is open to doubt.

● Enhance the Western European Union (WEU) organisation as the EU's defence arm. In theory this should be much easier now that the US has agreed that WEU can use Nato assets. In practice, the WEU remains largely a debating society – as France found last month when it sought WEU backing for its humanitarian intervention in Rwanda.

Looking ahead to the EU's next constitutional revision in 1996, Mr Alain Lamassoure, France's European affairs minister, has floated an interesting proposal. EU members should all agree to drop, over time any opt-outs they won at Maastricht, and to restore some uniformity of rights and obligations among EU members.

Otherwise, the EU may become unworkable as it gains new members. But the trade-off for countries such as Britain would be formal agreement that no further steps in European integration would be taken for a generation or so.

David Buchan

The French government's privatisation programme is nothing if not ambitious.

The four public sector groups already dispatched to the private sector and the 17 slated for sale over the next few years should bring more than FFr250bn to the state coffers – far beyond the anticipated receipts from other European privatisation plans.

More significantly, the transfer of some of the country's most powerful financial and industrial groups, such as Elf-Aquitaine, the oil group, and UAP, France's largest insurer, should prompt a profound shift in the traditionally tight relationship between business and government.

This is part of the government's incentive. "We should not be in the business of making cars," says Mr Gérard Longuet, industry minister, referring to his determination to privatise Renault. At least as important, however, are budgetary considerations. With the government's budget deficit targetted at FFr300bn this year, receipts from privatisation are necessary to curb pressures on the public purse.

So far, the auction of the state's assets and the harvesting of receipts has progressed relatively smoothly. Elf, UAP, and Rhône Poulenc, the chemicals and pharmaceuticals group, have been sold since the hammer fell on Banque Nationale de Paris, the administration's first privatisation, in the autumn of last year. Demand from the French public and international investors, combined with a strategic pricing, has seen over-subsription rates of between two and four times for the various issues.

But the easy part may now be drawing to an end. The sale of the state's silverware always looked likely to become trickier as the auction progressed. One-quarter of the way down the privatisation list, it is proving to be so.

THE 21 COMPANIES ON THE PRIVATISATION LIST

	Company	Sector	Turnover *	Profit/loss	Percentage of capital held by state **
1.	Aérospatiale	Aerospace	FFr50.8bn.	net loss FFr1.42bn	state holds 73.7 per cent
2.	Air France	Airline	FFr55.16bn	net loss FFr8.48bn	99.3 per cent
3.	Banque Hervet	Bank	n/a	net loss FFr1.2bn	73.5 per cent
4.	Banque Nationale de Paris	Bank	n/a	net profit FFr1.02bn	Privatised Autumn 1993
5.	Caisse Centrale de Reassurance	Insurance	n/a		100 per cent
6.	Caisse Nationale de Prevoyance	Insurance	FFr64.3bn	net profit FFr1.28bn	42.5 per cent
7.	Groupe Bull	Computers	FFr28.25bn	net loss FFr5.07bn	72 per cent
8.	Cie Générale Maritime	Transport	n/a	n/a	100 per cent
9.	Crédit Lyonnais	Bank	n/a	net loss FFr6.9bn	52.51 per cent
10.	Pechiney	Aluminium and packaging	FFr63.03bn	net loss FFr980m	55.7 per cent
11.	Renault	Automobiles	FFr169.79	net profit FFr1.07bn	80 per cent
12.	Rhône Poulenc	Chemicals	FFr80.58bn	net profit FFr952m	Privatised Autumn 1993
13.	Assurances Générales de France	Insurance	n/a	net profit FFr977m	65.5 per cent
14.	GAN	Insurance	n/a	net profit FFr414m	79.4 per cent
15.	Union des Assurances de Paris	Insurance	n/a	net profit FFr1.42bn	Privatised 1994
16.	Seita	Tobacco and cigarettes	FFr14.14bn	net profit FFr585m	100 per cent
17.	Société Marseilleise de Crédit	Bank	n/a		100 per cent
18.	Snecma	Aerospace engines	FFr19.57bn	net loss FFr804m	97 per cent
19.	Elf Aquitaine	Oil FFr210bn		net profit FFr1.1bn	Privatised 1994
20.	Thomson	Electronics	n/a	n/a	75.8 per cent
21.	Usinor Sacilor	Steel	FFr75.4bn	net loss FFr5.8bn	80 per cent

* 1993 unless stated ** unless already privatised, at March 1993
Source: Ministry of the Economy and Finance, and the companies

The next round of privatisations may be trickier, writes **John Ridding**

Not everyone can be a star

Part of the problem lies in the stock market conditions. The Paris bourse has lost more than 15 per cent of its value since its peak in February, as bond yields have surged higher. Most analysts expect some recovery in the second half of the year, but with most privatisation issues trading at or below their issue price, investors are adopting a more sanguine approach. "There is still interest, particularly in the better-known companies," says one analyst at a Paris brokerage. "But there is also an awareness that there is little prospect of a quick profit."

But the increasing complexity of the privatisation programme also reflects the candidates themselves. The first four companies to be sold were, by and large, stars of the public sector. All were profitable, with dominant positions in their respective markets and reasonable expansion prospects. The same cannot be said for many of the companies lower down the list.

Groupe Bull, for example, the computer group which is currently in the process of privatisation, has suffered losses of more than FFr15bn over the past three years. Pechiney, a victim of the depressed international aluminium market, reported a loss of FFr980m for last year.

Air France, towards the bottom of the list, is fighting for survival after a deficit of FFr8.48bn in 1993, while Crédit Lyonnais, one of the country's largest banking groups, will need to reverse a comparable loss before it can be sold to private investors.

The complications are not just financial. Renault, one of Europe's most profitable car manufacturers, is faced with political obstacles to privatisation. The sensitivity of its sale, which springs from its historic role as a stronghold of trade unions and a spearhead of public sector industry, has combined with the collapse of its planned merger with Volvo of Sweden, to cloud its privatisation timetable with uncertainty. The government is considering a partial privatisation by the end of this year.

In many cases, privatisation also depends on the implementation of restructuring measures. At Pechiney, the industry ministry has sought to merge the aluminium group with Compagnie Nationale du Rhône, a low-cost hydro-electricity producer, to render the company more attractive for sale. At Groupe Bull, industry partners, such as NEC of Japan or IBM of the US, need to be enticed to take or increase existing shareholdings to facilitate the computer group's shift to the private sector.

Despite these various obstacles, the government of Mr Edouard Balladur has little cause to be alarmed. The successful sale of Elf and UAP this year means that the target of FFr55bn in receipts for this year has already been met – even without the estimated FFr15bn predicted from the sale of Assurances Générales de France, the insurance group which is next on the sell-off list. As a result, the government can afford to take its time in pushing the rest of its assets to market.

Mr Balladur's economic officials can also take comfort from the level of international interest in the issues so far. Each issue has drawn strong demand from foreign institutional investors, seeking to take a share of French blue chip companies. "We have seen a healthy appetite for French issues," says one US fund manager. "Many of our clients want to increase the weighting of European and French stocks in their portfolios and the privatisation is a good opportunity." He notes, however, that the scaling down of share allocations to foreign institutions, resulting from clawback options for French individual investors, had caused some irritation.

Industrial investors have also sought to acquire stakes, often as part of the so-called *noyau dur* of long-term stable investors. BAT Industries of the UK, for example, took a 0.5 per cent stake in BNP, in a move which most analysts see as a precursor to a more significant role by the British group in the privatisation of Seita, the French tobacco monopoly.

The creation of a *noyau dur* for BNP, as for the rest of the privatisation issues, reflects the French government's strategy of easing its industrial assets into the private sector. The group of hard-core investors provide a measure of protection from predators and a degree of stability during the departure from state control.

"They are designed to create the minimum of security that is necessary," says one economic official. "The state cannot just abandon its companies to the private sector."

Maybe not. But if Mr Balladur can complete his privatisation targets, then the French state will be left with a much smaller public sector to feel protective about.

Privatisation's mixed blessings

Musical chairs

For the captains of French public sector industry, privatisation can be a mixed blessing. While most are anxious to see their businesses transferred to the private sector, many run the risk of losing their jobs in the process.

Mr Edouard Balladur ruled out a wholesale reshuffle in public sector boardrooms when he became prime minister in March 1993, pledging to avoid the witch hunt which has often accompanied changes of administration. But in practice his case by case approach has wrought some significant changes.

Of the four companies privatised so far – Elf-Aquitaine, the oil group and France's largest industrial concern, Banque Nationale de Paris, one of France's biggest banks, Union des Assurances de Paris, the biggest insurer and Rhône Poulenc, the chemicals and pharmaceuticals group – it is only the latter which has kept its chairman through the privatisation process.

Significant changes have also taken place at the next two groups preparing for auction. Assurances Générales de France and Groupe Bull, the computer manufacturer, have both been given new bosses to prepare them for sale. GAN, the insurance group, and Crédit Lyonnais, the bank, are among the companies further down the schedule who have seen their chairmen replaced.

Motives for the musical chairs in the private sector vary. Critics point to political motivations, designed to place allies of the centre-right government into positions of enduring financial or industrial authority.

Hence the decision to give the top job at UAP to Mr Jacques Friedmann, a confidante of both prime minister Edouard Balladur and Mr Jacques Chirac, head of the gaullist RPR party. The appointment of Mr Philippe Jaffré to head Elf, in place of Mr Loïk le Floch-Prigent, also partly reflects the latter's connections to the previous Socialist government.

The significance of the appointments is increased by the extensive network of shareholdings between French industrial and financial groups. Thus UAP, one of France's largest institutional investors holds stakes in leading French companies, including Elf and BNP.

But political incentives should not be exaggerated. Mr Jean Peyrelevade, who has taken the reins at Crédit Lyonnais, earned Socialist credentials while adviser to the government of Mr Pierre Mauroy in the early 1980s. Mr Christian Blanc, appointed last year as chairman of Air France, is close to Mr Michel Rocard, the former leader of France's Socialist Party. Mr Alain Gomez, chairman of Thomson, the electronics group, has kept his seat through a succession of conservative and Socialist administrations.

For foreign investors assessing privatisations the reshuffles may seem surprising; many appointees have no previous experience in the industries into which they are parachuted.

John Ridding

The financial sector faces up to change

Intense pressure

Anyone flicking through the business sections of the French press over the past few months could be forgiven for thinking that there was only one subject on the financial agenda: Crédit Lyonnais.

The traumas of Crédit Lyonnais, one of Europe's biggest banks and once the star of the French public sector, have been nothing if not dramatic, culminating in its clash with Bernard Tapie, the embattled politician who is one of its largest personal borrowers. Jean Peyrelevade, who was parachuted in last autumn as Crédit Lyonnais's new chairman, has secured the government's agreement for a FFr44.9bn rescue package to salvage the bank. He is now struggling to stabilise its finances in time for its eventual privatisation.

Yet the Crédit Lyonnais crisis is only of a number of important issues now facing the French financial sector.

The economic recession has imposed intense pressure on all France's banks and insurers. They now face the challenge of repairing their balance sheets and returning to recovery as the economic environment improves.

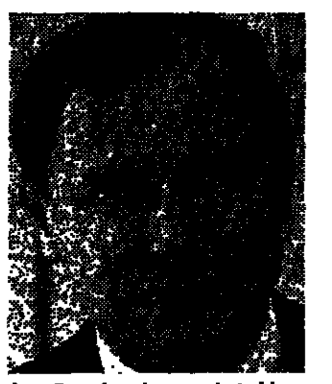
They are also in the throes of change as a result of the government's privatisation programme. The Balladur administration has already sold off Banque Nationale de Paris (BNP) and Union des Assurances de Paris (UAP). The sale later this year of Assurances Générales de France (AGF) means that yet another force in the financial sector will have been freed from the shackles of state ownership, thereby heralding significant long term changes in its structure and culture.

These changes come at a difficult time for the banks and insurers.

The recession has not only posed problems at an operational level – depressing the demand for banking credit for the first time since the 1940s and trapping the insurers in a vicious cycle of reduced premium income and rising claims – but has also burdened them with a steep increase in provisions.

Both banks and insurers (many of whom have sizable banking subsidiaries) have been forced to make hefty write-downs on declining property prices and on the rising number of business failures. Some companies, notably Suez and Paribas, have also faced falls in the value of their industrial holdings.

The economic outlook is now brighter. There is usually a timelag before such an uplift affects credit demand, but con-



Jean Peyrelevade: parachuted in as chairman of Crédit Lyonnais

ditions in the banking market are already easier. And the insurers are faring better, particularly as they have been protecting profitability for the past year by raising premiums.

The prospects for provisioning have also improved. Corporate profits have returned to growth, thereby lessening the pressure on industrial portfolios. The residential property market is already strengthening and the commercial sector has at least stopped deteriorating, thereby promising a reduction in the level of future property provisions.

France's financial groups are now turning their attention to strategic issues, notably the trend towards alliances between banks and insurers. These are epitomised by the growing links between BNP and UAP, together with AGF's recent choice of Société Générale as its banking partner.

Another concern is the development of the international interests they assembled in the late 1980s and early 1990s. The banks are concentrating on Europe, where Mr Peyrelevade is keen to develop Crédit Lyonnais's recently acquired retail banking network. BNP hopes to build on its cross-shareholding agreement with Germany's Dresdner Bank. The insurers plan to develop their European activities, but also to follow Axa's lead by expanding into Asia. Yet the overweening issue for the French financial sector is the impact of the Balladur government's ambitious privatisations.

The share sales orchestrated by the last centre-right administration in the mid-1980s had a dramatic effect on banking (by privatising Société Générale and Crédit Commercial de France) but left insurance almost intact.

That has now changed. By the end of this year only one large bank, Crédit Lyonnais, and one big insurer, Groupe GAN, will remain under state control. This should end the old ritual whereby the government (directly or indirectly) influenced the financial sector's investment policy or the banks' stance on interest rates.

Privatisation also heralds cultural changes for the financial sector. The banks and insurers argue that, as a result of international regulations and competitive pressures, they have effectively operated as private sector companies for some time. But their ability to do so has been inhibited by historic anomalies such as the government's power to hire and fire their chairmen.

Those anomalies will be eradicated by their entry into the private sector. At present France's big banks and insurers are still run by the civil servants appointed before privatisation. These appointees will eventually be replaced by professional financiers who will then face the new challenge of steering French finance into a new era – free, with luck, from politically-charged crises such as the turmoil at Crédit Lyonnais.

Alice Rawsthorn

Foreign investment has held up well in a difficult EU climate

Scope for plenty more

As a home for foreign investment, France has remained relatively attractive in a European business climate that has depressed the "animal spirits" of most investors.

According to Mr Jean-Daniel Tordjman, the economy ministry's roving ambassador whose job is to woo inward investment, direct foreign investment flowing into France fell from FFr86bn in 1992 to FFr61bn last year. Using adjusted US Commerce Department figures, Mr Tordjman puts the actual stock of foreign investment in France at just over $130bn.

Two years ago, France and Britain were the two countries which attracted the highest level of new direct investment and reinvested profits. This pecking order changed in 1993 as investment in China surged ahead and interest in the US recovered.

But France is now at least matching Britain, in outward as well as inward investment. According to the economy ministry, French companies invested FFr65bn abroad last year. This is well down from the FFr100bn invested abroad in 1992 and only half the FFr126bn annual average in 1989-91. But the ministry estimates that this will still put France in second place behind the US and equal to Britain.

The Balladur government's privatisation programme has provided new opportunities for portfolio investors in French equities. Mr Tordjman's main target has been the US pension funds. In theory, non-European investors can only collectively buy up to 20 per cent of the privatised stock; but as Mr Tordjman points out, this rule only applies to the primary issue, and non-Europeans can buy what they like in secondary trading.

A bigger problem, Mr Tordjman says, is that "many French companies are not used to working with pension funds, especially American ones which are extremely demanding for information."

France can offer a mix of human and physical advantages to the would-be investor. It remains a relatively low-cost economy – and not only because nuclear power gives it Europe's cheapest electricity and France Telecom is at last bringing down the cost of international phone calls. Its strong currency policy has pushed inflation to well below the European average, while the very fact of high unemployment – the big black spot on the French economy – has deterred strikes in the private (though not the public) sector.

It is probably the combination of lower labour costs than northern continental European countries, and a workforce and physical infrastructure technically superior to most of its neighbours, which most attracts companies to France.

Admittedly, one company, Ciba, the Swiss pharmaceutical group, did not have far to come when it recently decided to establish its FFr1bn bio-technology research centre at Huningue, near Mulhouse and just over the border from its Basle headquarters. In Basle, Ciba was faced with strong objections by Swiss environmentalists to bio-technology research being carried out there. It has sidestepped them by moving the project into France, where it believes it can employ equally good scientists cheaper.

Annual flows of direct foreign investment into France
(FFrbns)

1982	10.3
1983	12.5
1984	19.3
1985	20.0
1986	19.2
1987	27.9
1988	42.8
1989	60.9
1990	49.3
1991	62.5
1992	84.3
1993	68.8

Source: *Ministry of Finance*

Further north is the example of US Robotics, the Illinois-based maker of data communications equipment. "We entered France in 1991 by accident," says Mr John McCartney, its executive vice president in Paris, "when we bought a company in the US which happened to have four salesmen in Lille. But we have stayed and expanded our operation there to 35 people, because of the excellent logistics in the north, the new links with the TGV and proximity to major highways."

Last year US Robotics expanded its French operation by buying PNB, a suburban Paris assembler of modem, software and network systems. "France is attractive to us because of its high-quality engineering work force, and because its relatively sophisticated telecommunications infrastructure makes it a market where we can test and develop products for it on the spot," says Mr McCartney. Differing trans-Atlantic standards make it impractical to do this testing and development work back in the US, he says. "Some companies are going to the ex-Soviet Union to find good engineers cheap, but the telephone system is so bad there that the products can't be tested."

In some of France's science parks, such as Sophia-Antipolis to the north west of Nice, telecommunications has become the leading speciality. Indeed, several companies and institutes based there – AT&T, Aerospatiale, Ascom of Switzerland, British Telecom, Digital Equipment, the European Telecommunications Standards Institute, France Telecom, IBM and Texas Instruments – have formed the "Telecom Valley" association to promote telecommunications expertise in the Nice-Cannes region.

Sophia-Antipolis, one of the oldest and most successful of French science parks, is reaching saturation point on its present 2,300 hectare site, says Mr Gérard Passera, its manager, and plans to start extending on to another site of similar size in the late 1990s. At present it is home to about 1,000 companies – a tenth of them foreign-owned – providing some 16,000 jobs.

There is constant turnover, says Mr Passera, but the balance is positive, with some 150 companies arriving or being created each year and about 100 companies leaving or being liquidated. "The ones who survive tend to have established a solid high-tech research niche for themselves, with some limited production in, for instance, the pharmaceutical field," he says, adding that attempts to provide services from Sophia-Antipolis have proved less successful.

Sophia-Antipolis is even more closely integrated with its local university than other science parks or technopoles because it was set up at the same time as the relatively new university of Nice. As a result, many Nice university science students do their final year of study at Sophia-Antipolis, while the CERAM management centre also relies heavily on the technopole's facilities and expertise. Many of Sophia-Antipolis' training institutes now have a strong international flavour, and use English as their main working language.

Foreign investment is perhaps more surprising in food and tourism, areas which, in contrast to computing and bio-technology, are areas of traditional French strength. But Mr Tordjman believes there is scope for further culinary and leisure investments.

Ice cream, for example, a classic industrial food product, is still rather expensive in France – a fact which Mr Tordjman believes might incite other companies to follow Grand Metropolitan into the market; the UK group recently bought Haagen-Dazs and is building a new factory near Arras. Another classic industrial food product is *frites*, which McCain of Canada is now making in great quantities in France out of 200,000 tonnes of French potatoes a year.

'People have been obsessed by Euro Disney's problems'

"People have been obsessed by Euro Disney's problems," says Mr Tordjman. "But there are still, quite rightly, many plans for other attraction or theme parks in France, because we have 60m tourists and a total of FFr130bn in tourist revenue a year." He sees the potential for more theme parks in France, as well as more three star hotels.

David Buchan

John Ridding notes that trade with Asia has become important

Latecomer to the party

Free trade and France are not always mentioned in the same breath. But while successive French governments have often betrayed protectionist instincts, the corporate sector has been busily extending its tentacles into foreign markets.

Last year, the growth in overseas trade and investment was slowed by the impact of recession, the financial burden facing French industry and the effects of currency depreciations in Italy, Spain and Britain. But the competitive edge of French industry in international markets remained sharp. Exports declined by just 5 per cent to FFr1,180bn, contributing (along with depressed imports) to a record trade surplus of FFr87.3bn.

Such a performance will be hard to match, particularly as imports revive along with the French economy. But Insee, the national statistics office, claims a strong increase in foreign orders for French industrial goods in the first six months of 1994, and predicts another substantial surplus for the full year.

The pattern of trade has remained relatively stable. Germany, France's principal economic partner, continues to account for about 17 per cent of total French exports. Italy, the UK, Belgium each account for between 9 per cent and 11 per cent of shipments from France. In search of more rapid growth, however, and in an attempt to increase an historic weakness, the French government and much of the corporate sector are setting their sights to the east.

Peugeot-Citroën was an early investor in China's vehicle sector Tony Kirk

"More than at any time in our history, Asia represents a vital part of our future," says Mr Gérard Longuet, minister for trade and industry. Citing demographic projections, which suggest that by the year 2010 the Asia Pacific region will have a population more than 11 times greater than the 12 current members of the European Union, and pointing to the rapid economic growth rates of east Asian economies, the French industry ministry has launched a policy of encouraging trade and investment with the region.

There is much work to do. "The role of France in the Asia-Pacific region remains too small," admits Mr Longuet. With the exception of Vietnam, a former French colony, exports from France account for between 1 per cent and 4 per cent of the total shipments to Asian economies – much less than the US and Japan, and, in most cases, behind Germany, Italy and the UK.

The objective, says Mr Longuet, to be supported by increased trade credits, funding for commercial fairs and other measures, is to raise the proportion of French exports to Asian economies to 10 per cent within the next five years.

In urging a greater emphasis on the Asian region, Mr Longuet is often preaching to the converted. Many French industrial groups are already targeting Asia for both increased trade and investment projects. The award of a $2.2bn high speed railway contract in South Korea to GEC-Alsthom, the Anglo-French joint venture, Lafarge Coppee's joint venture project in China for the production of cement, and BSN's acquisition of a New Zealand food group, are just some of the most recent examples.

Peugeot-Citroën, the vehicle group, was one of the earliest investors in the sector in China, while France's powerful utility groups, Générale des Eaux and Lyonnaise des Eaux, have been busily responding to demand for infrastructural projects, from water treatment to highways.

Mr Franck Riboud, director for corporate development at Danone, formerly BSN, expresses a common sentiment in describing the company's expansion plans for the region. "There is much greater potential for growth in Asia than there is in Europe," he says. "In Indonesia, for example, there is a population of almost 200m people and a birth rate of about 4 per cent per year. That means an increase equivalent to the population of some European countries."

Financial companies are also at the forefront of the Asian assault. AXA, the insurance group, last month became the first French company to receive a green light to set up a life assurance business in Japan and promptly announced plans to invest $200m over the next seven years to develop its business there. The recently privatised Union des Assurances de Paris has also set its sights on the Japanese market.

In most cases, however, the push towards Asia remains at an early stage. "We are latecomers to the party and it is a long and difficult process to establish a presence in these markets," says the finance director of one manufacturing company. "It is not like doing deals in our traditional markets. Acquisitions are often impossible, and there are often restrictive regulations with which you have to contend."

For him, as for many industrialists, the largest industrial investments will continue to be made in Europe and the US. Elf Aquitaine's participation in the Leuna oil refinery in eastern Germany, the largest foreign investment in the region, is one example. Another is provided by its pharmaceuticals subsidiary, Sanofi, which last month bought the prescription drugs business of Kodak of the US.

"No one questions that Asia is an area of rapid trade and investment growth for French industry," says one French merchant banker involved in mergers and acquisitions. "But the growth will come from a very low base. In my view, the lion's share of corporate activity and of most trade will be done with traditional partners for the foreseeable future."

The luxury goods market is recovering, writes **Alice Rawsthorn**

'De luxe' looks east

The Louis Vuitton luggage shop on Avenue Montaigne is almost always crammed with Japanese tourists gleefully snapping up the brown bags bearing its famous LV initials that are so sought after – and so much more expensive back in Tokyo or Osaka.

Yet some Vuitton souvenir shoppers have been disappointed this spring and summer. Customers hoping to buy three or four bags to take home have been told that they could buy two at the most.

The "rationing" at Louis Vuitton harks back to the frenetic era of the mid-1980s when Chanel, another famous name in French luxury, was forced to restrict the tourists flocking into its flagship store on rue Cambon to no more than one of its classic quilted leather bags. (Some of Chanel's more determined Japanese customers were later caught hovering outside the shop, trying to bribe passing Parisians into buying more bags for them.)

The luxury market is still not as buoyant as it was in the mid-1980s, but it does seem to have recovered from its doldrums in the early 1990s.

Louis Vuitton is not the only company to have experienced a sudden surge of demand. LVMH, which owns Christian Dior cosmetics and Christian Lacroix couture as well as Vuitton, recently forecast profits growth of at least 20 per cent for 1994. Hermès, another famous French leather house, and Chanel have both experienced double digit sales growth so far this year.

Chanel: double digit sales growth

These positive reports augur well not only for the companies themselves but for the rest of the French economy. The luxury business, which encompasses everything from expensive scents to designer clothes and fine cognac, is one of the country's largest industries and an important source of exports. France is not only *the* dominant force in the global luxury trade, but the cachet of Cartier jewellery and Hermès handbags has a positive effect on perceptions of almost every other area of French industry.

Some French firms have astutely exploited this. L'Oréal has established itself as the world's leading cosmetics company by emphasising its "Made in France" appeal. Even Thomson, the giant electronics group, sees the reflected glory of French style as a key tactical advantage in its plans to relaunch its consumer electronics range across Europe.

Just as the downturn in the luxury market was one of the catalysts for France's descent into recession, the upturn has come at a critical time when the economy is teetering towards recovery. Yet the luxury industry is not yet out of the doldrums. Bernard Arnault, chairman of LVMH, says that some markets, notably the US and UK, have are already out of recession, but that others, such as Germany and Japan, are still fragile.

The erratic picture in these established markets is countered by the emergence of dynamic new sources of sales. Eastern Europe is one area of growth, although still in a fledgling state. But the most promising future markets are the emerging Asian economies of Taiwan, South Korea, Hong Kong and even China.

The French luxury houses are now busily extending their operations into these countries. Cartier has opened a shop in Shanghai. LVMH has already set up a Christian Dior boutique in Moscow and is now planning to open a Vuitton shop in the city. So far these ventures are at an experimental stage, but the industry sees them as a vital investment if its new markets are to provide the same stimulus for luxury goods sales in the late 1990s as Japan did for much of the 1980s.

Yet the current crop of luxury consumers are different from their predecessors. The industry's new Asian customers are showing signs of being more price conscious than the self-indulgent Japanese. At the same time its established consumers in the West have become more discerning about quality and craftsmanship than their status-obsessed predecessors in the 1980s.

This means that the industry has had to become even more rigorous about quality control and has had to invest heavily in improving standards of service – particularly after-sales. "It is impossible to under-emphasise how important after-sales service has has become," says Alain-Dominique Perrin, chairman of Cartier. "It's as important for the brand's reputation as advertising."

Eurotéléport is smaller and less grandiose than its name. With just 10 full time staff, it sees itself as David to the Goliath that is France Télécom, with 156,000 employees. But from its base of Roubaix, Eurotéléport is prising loose France Télécom's lock-hold on telecommunications in the country.

It set itself up last year as a kind of airport (hence its name) to direct communications traffic for companies which, since 1990, have been allowed to go outside France Télecom in creating internal networks between their own factories, subsidiaries or industrial partners.

Since 1990 France's PTT has granted some 200 licences for such independent networks. Some have gone to organisations with obvious means as well as needs, such as the SNCF railway system and Electricité de France (EdF), the electricity utility, whose tracks and cables can accommodate parallel telephone lines. But several private companies without these terrestrial advantages have gone for help to Eurotéléport.

Mr Jean-Pierre Machart, Eurotéléport's managing director, claims that dissatisfaction with France Télécom prices turned two other customers towards Eurotéléport. The local textile group of de Wavrin decided that France Télécom was providing too expensive a link between its Scottish, Italian and Dutch branches, and is now following Eurotéléport's advice in using US Sprint, although the fact that the latter has just linked up with France Télécom may jeopardise Eurotéléport's relationship with Sprint in the long term.

Auchan, the supermarket chain, was paying France Télécom FFr14.5m a year to link its 52 supermarkets in France for a service that Mr Machart claims to be able to provide for FFr4.5m a year.

In fact, France Télécom has entered far more into the spirit of competition than other French utilities, pushed partly by the European Commission and partly by new technology which is steadily reducing the barriers to entry into its market. "We are no longer a monopoly," says Mr Gerard Moine of France Télécom.

The red letter date in the European telecoms calendar is January 1 1998, when ordinary voice telephony is to be opened to competition. It is hard to see France Télécom losing its national hold over this.

Even Eurotéléport's ambition is purely regional. "We would like to be the telecom operator for everyone in the Nord-Pas de Calais region," says Mr Machart. "But we are too small to try to link up the whole of France. We could have satellite clients across the country, charging for instance FFr1.50 a minute to call the US compared to today's cost of FFr6. But France Télécom could always react by lowering international call costs, because it has such a large domestic business on which tariffs could be commensurately raised."

Indeed, further reductions in its international tariffs are an important part of France Télécom's preparation for 1998. But Mr Moine admits that it may not be easy, given that it has already cut trans-Atlantic charges by 60 per cent over the past five years, and the French utility's debt servicing, at 8 per cent of turnover, is much heavier than, say, British Telecom's at 3 per cent.

David Buchan looks at monopoly deregulations

Goliath gives way

EdF and Gaz de France are now under challenge from Brussels

France's two other Goliaths, EdF and Gaz de France, are showing far more determination to keep potential Davids at bay. In contrast to telecoms, where it has accepted European liberalisation with a more or less good grace, France is still stoutly contesting the European Commission's attempts to end its energy monopolies.

It believes that Brussels is behaving like a lawyer rather than an economist in refusing to acknowledge both the huge energy investments that only monopolies or near-monopolies can make, and the huge advantages that these investments can produce. With assets of FFr 600bn, a debt of FFr170bn and a cash flow of FFr60bn a year, EdF has become the world's largest producer of electricity (generated 75 per cent by its 54 nuclear power plants). With the exception of some Dutch and UK rates, it is the cheapest in Europe.

The Commission has said it will take France and several other EU states to court for refusing to end monopolies on importing (as well as the slightly less sensitive matter of exporting) energy, but it has not yet done so. The stakes are less high for EdF (which exports some 12 per cent of its output now) than for GdF, which already imports 90 per cent of its gas.

"The government is worried that breaking up GdF's import monopoly would fragment and weaken France's bargaining power when it comes to buying as gas from supplier monopolies in Russia, Norway or Algeria," says a senior industry ministry official.

But the government seems ready to accept its recent Mandil committee report that certain industrial users of gas could contract to import gas directly, but only "in co-operation with the network" – in other words, GdF.

In addition, without privatising the utility, the government is ready to open GdF's capital to oil or gas producers – a possibility enhanced by the fact that GdF's new president, Mr Loïk Le Floch Prigent, used to head Elf-Aquitaine.

The Commission has made further liberalisation proposals, to win approval from other EU institutions. They have drawn a mixed reaction from France:

● France is ready to allow outsiders to bid competitively to supply additional electricity generation to EdF which, however, would remain the sole distributor of power in the country. This would end EdF's production monopoly, as the Commission desires.

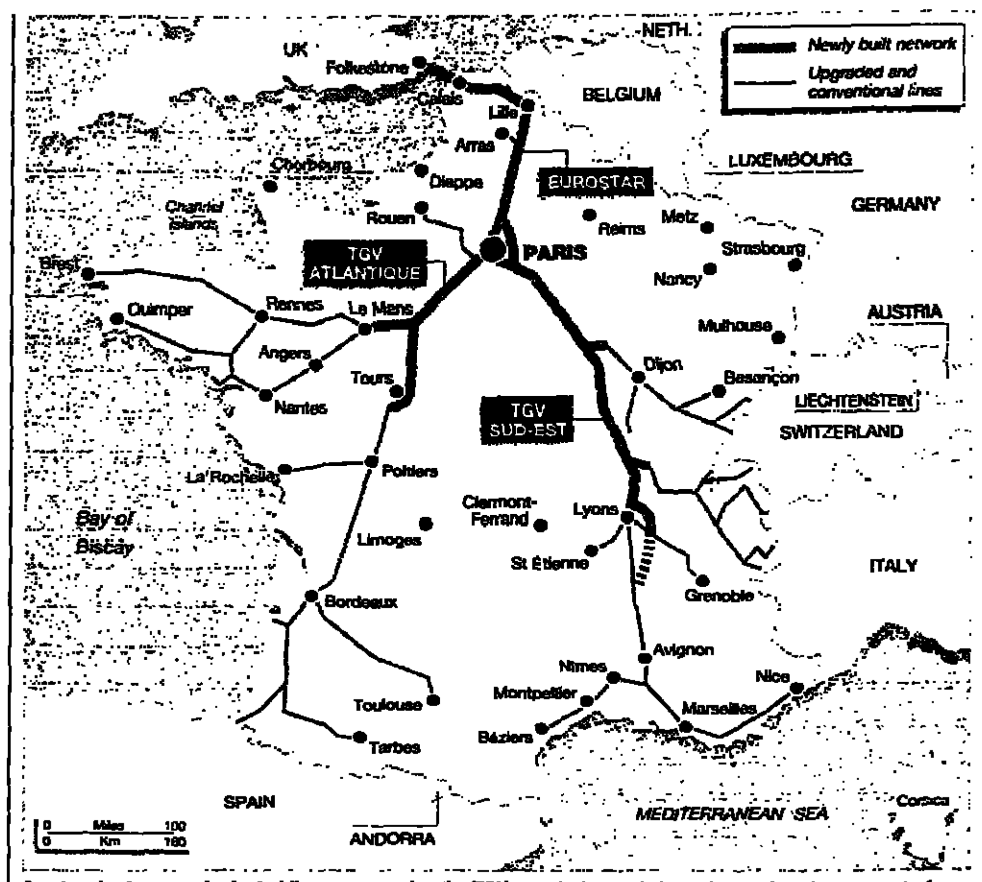
● France is flatly opposed to allowing "third party access" requiring EdF/GdF to carry other people's electricity or gas to any French consumer who wants it.

Paris objects on grounds of equity and efficiency. It would undermine uniformity of price – considered an overriding social objective in France – because French companies would be bypassing EdF/GdF to get a cheaper price.

It would also undermine the certainty needed for investment. "No one would build nuclear plants any more," says Mr Pierre Lederer, chief EdF economist. "It would have an accordion-like effect on the market," comments Mr Dominique Maillard of the industry ministry, because falls in investment would lead to eventual shortages and price rises themselves stimulating over-investment and over-capacity.

France is against a free energy market for itself, but sees some self-interest in others making the experiment. EdF has become the world's biggest electricity exporter, partly because the break-up of monopolies in, for example, the UK, have given it a market.

Monopoly at home, free market abroad? Who could ask for more?



A network of new and adapted lines now carries the TGV – 'train à grand vitesse' – to almost every part of France. Eurostar will soon continue through the Channel Tunnel to link with the UK railway system

The communications industry is now largely free of state controls

Media alliances forge ahead

When a furious André Rousselet last stormed out of a February board meeting at Havas, the powerful media and leisure group of which he was once chairman, it marked the end of one era for the French communications industry and the beginning of another.

Mr Rousselet was protesting against the surprise announcement that, without his knowledge, Havas had finalised negotiations to form a group of shareholders in Canal-Plus, the pay-TV station he had founded in 1984. His walk-out was shortly followed by his resignation as a director of Havas and then as chairman of Canal-Plus.

His departure cleared the way for Havas and its partners – France Telecom, the telecommunications group behind the Telecom 2 French satellite television service which had just agreed to become one of Havas's minority shareholders, and Générale des Eaux, the industrial concern with extensive interests in cable television – to take control of Canal-Plus. It should also – or so the Havas faction hopes – enable them to dominate the development of the communications industry into the next century.

France has always prided itself on its technocratic prowess. Successive governments have invested heavily in ambitious technology and engineering projects: from the construction of the *train à grande vitesse* high speed rail network, to the installation of France Telecom's Minitel interactive computer system. They have also been willing to support ailing areas of technology-linked industries such as some parts of the Thomson electronics empire and the heavily loss-making Bull computer group.

The excitement generated by the emergence of the new multimedia industry in the US has triggered a similar surge of enthusiasm in France among the companies that participated in the liberalisation of the old state-controlled broadcasting system during the 1980s. These companies – which include Lyonnaise des Eaux, the utility group, the Bouygues construction concern, the Luxembourg-based CLT media company, the Chargeurs industrial group and Matra-Hachette, the electronics and media conglomerate, as well as Havas, Générale des Eaux and France Telecom – are now wrestling for pole positions in the French multimedia arena.

The central theme of developments in the communications industry during the 1980s was the dismantling of the old state controls.

This process was begun by the socialist administrations of the early 1980s and continued by the centre-right coalition government in the middle of the decade. It involved the creation of new media entities, such as Canal-Plus and the French cable television system. It also included the privatisation of a number of important media companies including Havas and TF1, the country's largest television channel.

Some of these initiatives have been resounding successes. Canal-Plus is only 10 years old, but has been so successful that it is regarded as a worldwide role model in pay-TV. It has also expanded into other countries and into new areas of the media, notably into film production and satellite channels.

TF1 has been similarly successful, having flourished in the private sector to increase its share of the viewing and advertising revenue largely at the expense of France 2 and France 3, its state-controlled competitors. M6, one of the new private sector television channels launched in the 1980s, is finalising plans to go public.

Yet other ventures have been expensive failures. La Cinq, another new 1980s channel, collapsed two years ago leaving heavy losses for its main shareholders (including Matra-Hachette and Silvio Berlusconi, now prime minister of Italy). Meanwhile the French cable television system is still struggling after years in the red.

In short, the progress of the French communications initiatives of the 1980s has at best been erratic. However, liberalisation of the old state-controlled broadcasting system, coupled with the development of new areas such as cable, did flush out the main participants in the development of the new multimedia industry. The protagonists have been hastily forging alliances over the past few months, from which they will fight for market dominance.

The Canal-Plus crisis was a critical event in the creation of these camps. It now seems fated, as Mr Rousselet feared, to become a pawn in France Telecom's multimedia strategy.

It has also become the focus for one of France's multimedia factions: composed of Havas and Générale des Eaux as well as France Télécom. This group is now pitted against the combination of TF1 and Lyonnaise des Eaux.

Hovering on the sidelines are CLT and Matra-Hachette, together with Chargeurs, one of France's leading film producers and a long term investor in Rupert Murdoch's BSkyB channels which are relayed by Telecom 2's arch-rival, the pan-European Astra satellite service.

They wait anxiously for France's multimedia battle to begin in earnest. Yet the most anxious observer of all is the French government which, despite the 1980s liberalisations, has kept a tight rein over the media, to the extent of infuriating its EU partners with protectionist policies.

French protectionism is now under attack both from the rising tide of EU regulations and the ineluctable internationalisation of European media. The French might have drawn up their multimedia battle lines, but they are unlikely to be allowed to wage the war entirely on their own terms.

Alice Rawsthorn

David Buchan finds that agriculture is learning to live with the Gatt

Kicking the support habit

What Mikhail Gorbachev used to call "new thinking" is gaining ground in France's farming establishment – or at least in its agriculture ministry and parts of its food industry and farming community.

France is learning to live with the Gatt accords which, only a year ago, many French were denouncing as instruments of American "agri-imperialism" aimed at turning the French countryside into a desert. Paris is developing proposals to enable French and European farmers to sell more of their produce on the world market without subsidy – and thereby to sidestep legally the Gatt requirement for a 21 per cent cut in *subsidised* exports over six years.

Despite their past tirades against Gatt, the French are better placed than other Europeans to kick the habit of high support prices and high export subsidies.

In the Paris basin, France's prime wheat growing belt within a radius of some 200 kilometres from the French capital, production costs are roughly the same as in the American middle west; for French farmers, the cost of using fertiliser more lavishly than their American counterparts is offset by higher French yields (6 tonnes per hectare on average, compared to 2.5 tonne in the US).

But price is not everything when it comes to food, where France has always traded on its "marques" and "appellations controlées". Only about a third of French farm produce is exported in unprocessed form, and an increasing share of exports, such as almost all wines, cognacs and most cheeses (except for the more basic types such as Emmenthal), need no subsidy from Brussels. Of the FFr50bn worth of farm products that France exports outside Europe, FFr 17bn worth was sold without subsidy.

France hopes that Gatt will help to crack down on counterfeit cognacs

"Can this practice [of subsidy-free export] be extended to other sectors, such as poultry, certain milk products and even large scale production of cereals?" asks Mr Jean Puech, the agriculture minister, answering himself in the affirmative. In pursuit of this goal, the minister is proposing:

● Various national measures to cuts costs and increase efficiency in French agriculture. Last month Mr Puech announced cuts in special levies cereal farmers have had to pay (because they are considered richer than other farmers). He would also like to abolish the discriminatory system which levies social charges on a farmer's entire income (including capital savings), not just on earned income – as in the case of everyone outside farming.

Another possible legislative change would encourage the incorporation of more farms as companies, to deal better with the Napoleonic code's requirement that estates be equally parcelled out to heirs.

● To maximise the possibilities offered by the Gatt, both in terms of market opening and of product protection. France is now seriously prospecting new markets in Asia, and its Breton pig farmers have now joined their Danish counterparts in acquiring the right to sell pork into Japan. France also hopes that Gatt will help it crack down on counterfeiting, particularly of cognacs.

● To extend to other products the system already existing for sugar which, beyond a certain quantity, is exported without subsidy. In general terms, the reform of the Common Agricultural Policy of the EU is making European farm products more competitive, chiefly through the 20-25 per cent cut in the prices of cereals, an important agricultural input. For instance, this is making France much more competitive in poultry because, as an aide to Mr Puech comments: "chickens are basically cereals with feet".

But Paris is also examining the idea of "split internal pricing" whereby producers would get the guaranteed Brussels minimum price for a certain quota of their production, and beyond that they would be free to produce as much as they liked for whatever return they could get on the world market.

The French agriculture ministry notes that it would not be easy to control these two different production and price systems so as to avoid fraud and market disruption. Eridania Beghin Say, France's biggest sugar producer, says it would welcome an extension of the European sugar regime (which has the added advantage to the European taxpayer that producers pay for their own export subsidies). But it recognises that it might be difficult for products less industrial than sugar, which has to pass through refineries.

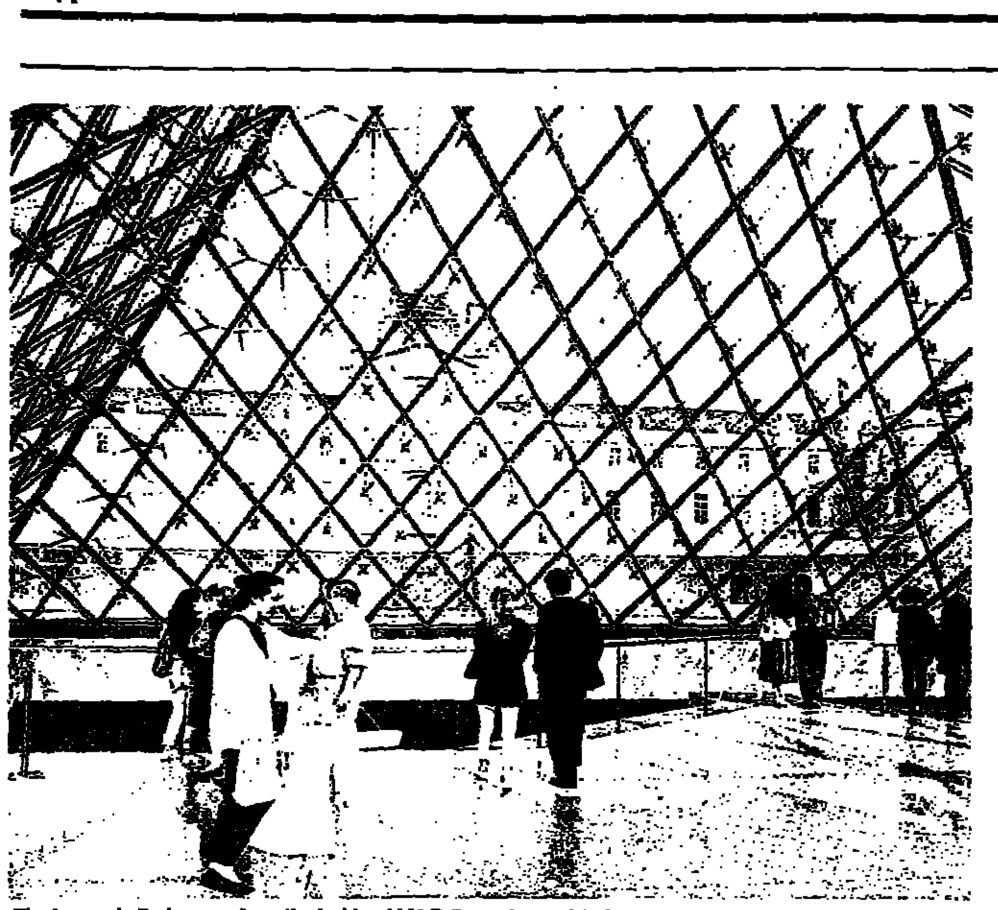
However, Mr Puech says he believes it should be possible to let farmers "develop extra production which could be sold at lower prices, given its marginal cost of production. With all the necessary prudence, we ought to be able to find solutions based on differentiated pricing." The minister intends to encapsulate his ideas in a memo sent to the European Commission in time to be debated under the French presidency of the EU in the first half of next year.

In the meantime, the French agro-industry is proving its durability and adaptability. Last year's recession hit some companies such as its leader, the Danone group – the renamed BSN – which saw retail sales drop slightly, but left unaffected others such as Eridania Beghin Say.

Overall, the French agro-industry held its turnover steady last year at FFr 695.5bn, the only industrial sector to do so during the 1993 recession.

"We are happy to have been proved wrong," says an official in the French agriculture ministry. Paris had criticised the European Commission for over-estimating the degree to which European farmers would reconquer their home market in the wake of CAP reform.

"But perhaps this shows that the set-aside arrangements should be made more flexible," adds the official. The CAP reform's requirement that French farmers have to take 15 per cent of their arable land out of production still grates. And it was only after being promised that the Gatt agreement would not increase this set-aside ratio that France put its signature to the world trade deal. Now, Paris sees the glimmer of a hope, or at least an argument, for reducing it.



The Louvre in Paris, seen from the inside of I M Pei's controversial glass pyramid in the courtyard Universal Pictorial

The arts have veered towards cultural conservatism, writes **Alice Rawsthorn**

Une petite crise de confiance

There is a possibly apocryphal story that when Mr Jack Lang, the popular socialist politician, and his wife, Monique, arrived at the gala dinner for this year's Cannes Film Festival they headed straight for their usual seats – at the table of honour.

The hitch was that those seats are reserved for the French arts minister; Jack Lang had been ousted from that post when the socialists lost power in the spring 1993 elections. The best seats at the Cannes gala now belong to his conservative successor, Jacques Toubon, and his wife, Lise. The Toubons – so runs the story – stood hovering on the sidelines while the festival organisers pleaded with the Langs to move.

Apocryphal or not, the story acts as a neat illustration both of Mr Toubon's difficulties in settling into his new job and of the unstable state of the French arts which, like so many other areas of contemporary France, have hit a crisis of confidence.

Mr Toubon is in an unenviable position. He has a difficult act to follow in the charismatic Jack Lang who dominated the arts for almost a decade; François Mitterrand's longest-serving minister. Mr Lang not only benefited from the president's support but also from good timing. He was in power for much of the prosperous 1980s and secured healthy increases in the culture budget to finance ambitious initiatives such as the *grands projets*, his modern architectural schemes.

To his credit, Mr Toubon has defended the arts budget, frozen at FFr13.45bn for 1994

His successor has taken over at a more difficult time: the French economy has been in recession and most ministers have been forced to make cuts. To his credit, Mr Toubon has defended the arts budget, which was frozen at FFr13.45bn for 1994. But his tenure has coincided with a turbulent period for France when the country's economic problems have been aggravated by social anxieties such as the rising incidence of Aids and an increase in racial tension.

These pressures have taken a toll on the cultural community. Rarely a week goes by without an academic or journalist bemoaning the arid state of the French arts in the media. The cultural life of every country enters a fallow period from time to time, but the issue has a particular poignancy for France, which has prided itself on its artistic and intellectual prowess ever since the 1789 Revolution.

Optimists among the French intelligentsia dismiss concerns about the current lull in artistic activity as typical of the Gallic love of self-criticism. But the realists accept that, just as Paris lost its laurels to New York as *the* international art centre, with the flowering of abstract expressionism in the 1950s, it is now losing its intellectual edge. No new names have surfaced to take the place of the great French thinkers of the 1960s, 1970s and 1980s: Michel Foucault, Roland Barthes and Louis Althusser.

These problems were already apparent in the 1980s. However, they were disguised by the triumphalist spirit of Jack Lang's policies. The *grands projets* produced only one world-class French architect: Jean Nouvel, the man behind the Arabic Cultural Centre in Paris. But the excitement of the new buildings created the impression of France as a dynamic architectural centre and fostered the emergence of figures in related fields – such as Philippe Starck, now one of the world's most famous designers.

Jack Lang's munificence also stimulated other areas, notably cinema, with the arrival of exciting young film-makers such as Jean-Jacques Beneix with *Diva* and Luc Besson with *Subway*.

Some of these new talents are now struggling. Jean-Jacques Beneix and Luc Besson have yet to replicate the commercial and critical success of their early work. Jean Nouvel is still creating extraordinary buildings – notably the Fondation Cartier arts centre which opened in Paris this spring – but his architectural practice has suffered in the recession.

The recession has also made it difficult for new names to emerge, not only because budgets are tighter but because the climate is less confident and thus more conservative.

Moreover, the French arts have historically fared badly during difficult economic periods, arguably because France, unlike Britain, has no tradition of social-realism. French film critics lionise the work of the British realists, Ken Loach and Mike Leigh, but almost all the important French movies of the 1990s have been historical epics. France's writers and film-makers seem to have little interest in reflecting the harsh reality of contemporary life.

Jacques Toubon seems unperturbed by this. His aim is to make the arts more populist by changing the emphasis of his ministry's work away from Jack Lang's multi-cultural modernism, back to a conservative ethos of conservation and patriotism.

Attacks on Hollywood and 'franglais' have been greeted with derision outside France

His main initiatives have been unashamedly nostalgic – notably his ambitious programme to renovate delapidated historic monuments such as the Garnier Opéra and Pompidou Centre in Paris. The conservation theme is also apparent in more blatantly nationalistic schemes such as his battle last autumn to defend French cinema against the "cultural imperialism" of Hollywood during the Gatt negotiations and his new law against the use of English, or *franglais*, in advertising.

Mr Toubon's attacks on Hollywood and *franglais* have been greeted with derision outside France. But his cultural conservatism has struck a chord with the government's centre-right supporters at a time when they seem to want to escape from the uncertainties of contemporary life by wallowing in the past through the anniversaries of the D-Day landings, the Georges Pompidou presidency and even in the recent trial of Paul Touvier, the Nazi collaborator.

However, as Mr Toubon's critics have pointed out, his nostalgia drive is not simply a harmless diversion. It could have the adverse effect of encouraging the French to avoid getting to grips with the problems of the present, thereby prolonging, rather than resolving, the cultural crisis in France.

David Buchan notes some handicaps to innovation and efficiency in an impressive R & D establishment

Strategic vision needs to be restored

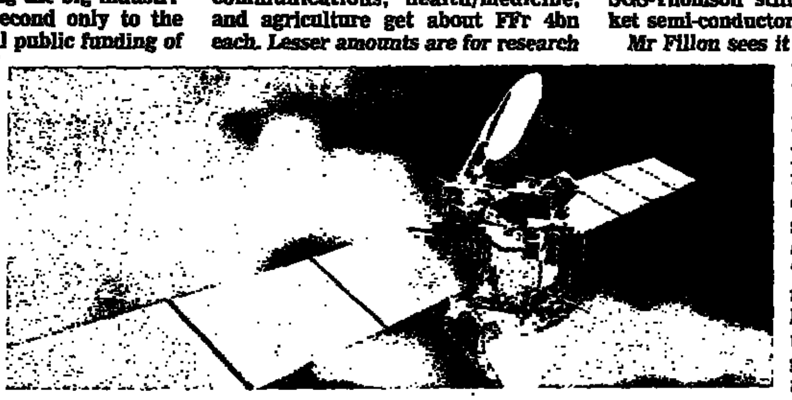
The French like to think of themselves as thoroughly modern.

They have an impressive array of technical and scientific achievements to their credit – among these, the French-inspired Airbus and Ariane rocket projects, one of the world's biggest military and civil nuclear programmes, the high-speed TGV *(train à grand vitesse)*, and Nobel physics prizes for 1991 and 1992.

But can they keep it up? Mr François Fillon, the research minister, has voiced doubts in public. He not only complained of rigidities in France's R & D (research and development) establishment which stifle innovation, efficiency and mobility, public laboratories out of touch with industry, insufficient research by the private sector itself, but also declared that "the state no longer has a strategic vision" about the future of research.

This was quite an admission in a country where invention and innovation have been state-led since the 17th century. It could be dismissed as over-dramatisation from a young new minister, seeking to exaggerate a problem to make a name for himself – were it not for two sets of facts.

One is the quantity of effort and money that the French government puts into R & D. France rates consistently second among the big industrialised countries: second only to the US in terms of total public funding of all kinds of research (as a share of gross domestic product); second again to the US in public funding of defence research; and second only to Germany in public funding of civil research.



Eutelsat II: one of six satellites linking 40 telecoms members of Eutelsat Aerospatiale

But the output, at least in industrial terms, is still disappointing. Of all patents registered in Europe in 1991, 9 per cent were of French origin, 20.4 per cent were German, 24.7 per cent American and 24.4 per cent Japanese.

The French state spends about FFrs 80bn a year on R & D, of which FFr 30bn is military and the rest civil, divided about equally between basic research and sectoral programmes. Among the latter, the largest programme is FFr 9bn a year for space (Ariane). Computing/electronics/telecommunications, health/medicine, and agriculture get about FFr 4bn each. Lesser amounts are for research into energy, aeronautics, the environment and manufacturing processes.

France has always been a main proponent of European Union R & D programmes, but it does not reap any great financial savings as a result. For instance, France continues to fund R & D into electronic components which are not of sufficiently wide interest to the 12 member states of the EU; only Siemens of Germany and the Franco-Italian company of SGS-Thomson still make mass market semi-conductors in Europe.

Mr Fillon sees it as his main job to give clearer direction to the 100,000 researchers who work in public R & D institutes, universities and engineering schools. So he is establishing a "strategic orientation" committee in his ministry, setting France the goal of matching the research effort of the US, Japan and Germany by the year 2005.

But the real problem lies with French industry itself, which spends relatively little on research – with the honourable exceptions of big companies in the aerospace, pharmaceutical, electronic and telecommunication sectors.

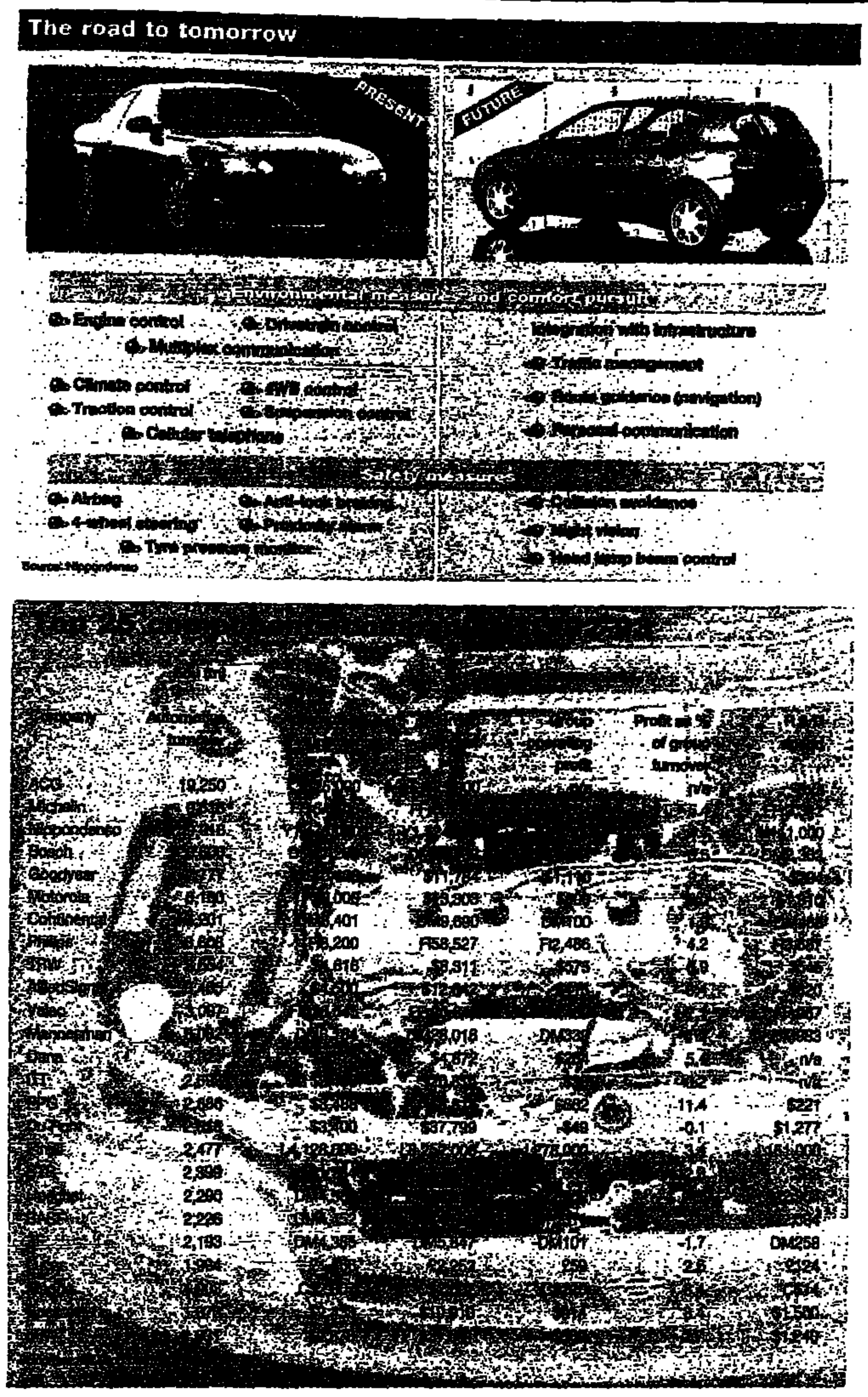
The upshot is that the state funds 51 per cent of all R & D in France, 49 per cent in the US (because of defence), 35 per cent in Germany and 22 per cent in Japan. Too little R & D is carried out in smaller, middle (as distinct from high) tech companies. Very few researchers in the public laboratories – half of whom are over 45 years old – dream of taking the risk of starting up their own businesses to translate their scientific invention into technical innovation. Changing this bureaucratic culture in research is not something that Mr Fillon will be able to do speedily.

But he probably could have done without the recent language law of his fellow minister, Mr Jacques Toubon, responsible for culture. Most of France's scientific community has strongly opposed the Loi Toubon which requires the use of the French language in scientific congresses in France and the publication in French of any work funded by the French state.

Most French scientists claim that this ignores the fact that English has become the lingua franca of international science, and that only in English can they let the world know what they have achieved.

WORLD AUTOMOTIVE COMPONENTS

Tuesday July 12 1994



As the pressure to cut costs intensifies, the focus has sharpened on the relationship between the vehicle maker and its suppliers, says **Kevin Done**

The challenge is clear: change or die

The world's leading vehicle makers have been preaching for several years the necessity of reforming their thorny relationships with components suppliers.

Now in the face of fierce competition in the world auto industry, intensified by several years of recession, first in North America and then in Europe and in Japan, the pressures for change in the adversarial relationships of old are proving irresistible.

New car sales worldwide fell for three years in succession from 1991 to 1993, and during the period red ink has been splashed over the accounts of many of the world's leading vehicle makers in the US, Japan and Europe, as well as over those of their suppliers.

Demand has started to pick up, beginning in North America, but this is allowing only a short pause from the need to restructure. As the pressure to cut costs and rebuild balance sheets has grown, the focus has sharpened on to the crucial relationship between the vehicle maker and its suppliers.

Well over half of the ex-factory value of a car is generated by materials, components and systems bought from the supply sector. When a vehicle maker has struck trouble, the immediate reaction has been to squeeze its suppliers, as the quickest way of reducing costs.

"More than ever automakers today recognise suppliers' impact on their cost and quality goals," says Ralph Reins, president of AlliedSignal Automotive, a leading US component maker.

"As suppliers, we used to operate in the shadows of our customers. Business was awarded on the basis of three bids and a cloud of dust. If we happened to be the low bidder, the only challenge we faced was to build the part to the automaker's exact specifications and deliver it on time. When times were tough we took our 3 per cent price cuts, but we were rarely consulted on how to make our parts more cost-efficiently. Times have changed."

The squeeze on costs throughout the supply chain, coupled with other pressures, means that the automotive components industry is going through a period of unparalleled change and painful dislocation. At same time, significant opportunities are opening up for the companies learning most quickly to play by the new rules.

The first tier of automotive components suppliers are having to establish a global presence – to meet demands from the vehicle makers for global sourcing – and they are having to enhance their research and development capabilities as they take over functions previously performed by the vehicle assemblers.

Increasingly, components producers are having to develop into suppliers of systems rather than simply of components, as the vehicle makers themselves transfer operations previously carried out in-house to outside suppliers.

The car makers are seeking to concentrate more and more on their own core activities of new product development (overall programme management rather than the design and development of vehicle components) and final vehicle assembly.

A structure is fast emerging which reflects more closely the pyramid organisation of the Japanese industry with its tiers of suppliers. The participants in the first tier are growing in size and technological capability as they assume new responsibilities, but at the same time the number of operators in this category is falling. as the vehicle makers themselves try to rationalise their supply bases and reduce radically the number of suppliers with which they have to deal.

"These new requirements will result in a shake-out that will leave fewer than 300 truly global tier-one suppliers by 2000," says Mr Reins. "Those that cannot meet the demands of global sourcing, programme management and systems packaging will either drop further down the supply chain or fade away. The bottom line for suppliers today is crystal clear: change or die."

Individual car makers have already taken drastic action to cut the number of their direct suppliers from around 1,250 on average in 1988 to 900 at present, according to a report produced by the Boston Consulting Group for the European Commission.

The number is expected to drop again to around 400 by 1997 and the number of companies operating as second or third-tier suppliers may fall by up to a third, warns the study.

"The European motor industry still has more suppliers than it really needs," claims Eckhard Jokisch, vice-president of supply at Ford of Europe. "A lot have already fallen by the wayside, because they could not even meet today's challenges and others will follow ... Changing our philosophy from buying nationally to buying globally has already led to a reduction in numbers. Our strategy of purchasing higher levels of sub-assemblies will reduce the number of suppliers even further."

IN THIS SURVEY

Ford has more than 700 suppliers – all in North America – for its US-built Ford Tempo/Mercury Topaz range. The successor Ford Contour/Mercury Mystique models due to be launched later this year will have only 227 suppliers drawn from around the world.

The first-tier components producers are themselves being as rigorous as the vehicle makers, spreading the reduction in supplier numbers down the chain.

Valeo, the leading French automotive components producer, was served by 3,500 suppliers in Europe in mid-1991, but this number has been cut to 1,800, and the aim is to reach around 1,000 by the end of 1995.

The rationalisation of the industry is having severe consequences for jobs. Employment in automotive components production in the European Union could decline by at least 40 per cent up to 1999, the BCG report warns. More than 400,000 jobs are likely to be shed, as European components makers seek to close the productivity gap with the Japanese industry.

Chrysler, the smallest of the big three US car makers, which was faced by renewed financial crisis at the end of the 1980s has taken a decisive lead in reforming the relationship between vehicle assembler and suppliers.

"We view our suppliers as an integral part of a value-added chain – a chain that leads not to us, but through us to the real boss, the customer. We call it the extended enterprise," says Bob Lutz, Chrysler president.

"We treat suppliers as fully-fledged members of our platform (individual car range) teams. We have scrapped the old system of auctioning off contracts to the lowest bidder. Instead we set an overall 'target cost' for a given vehicle. And then we work with pre-selected 'supplier-partners' to arrive at mutually agreed costs for that vehicle's parts and components."

Chrysler maintains that it has made savings of $400m a year during the last four years through a programme designed to reduce supplier costs. "Those savings came from waste reduction, not from cutting suppliers' profit margins," insists Mr Lutz.

While dramatic reforms have been put in place by some manufacturers, there is a long way to go before the new era of partnership reaches all levels of the industry.

The "necessary levels of trust" are still not present between vehicle makers and components suppliers, according to a highly critical recent report in the UK, sponsored jointly by the government and the motor industry.

"The mistrust is the result of many years of broken promises, abuse of confidence, and general acrimony in the industry," the study prepared by Professor Richard Lamming, professor of purchasing and supply management at Bath University School of Management, reports. "In developing new working agreements with their suppliers most vehicle manufacturers still appear to deal more in rhetoric than reality."

WORLD AUTOMOTIVE COMPONENTS 2

Forecasts suggest new car sales will rise this year, says **Kevin Done**

Demand likely to accelerate

New car sales worldwide are expected to rise by more than 5 per cent this year, ending three years of falling demand and providing increased orders to the automotive components supply industry.

Car sales fell last year to a six-year low, but demand is forecast to begin a sustained period of growth in 1994 rising to record levels throughout the second half of the 1990s, according to the latest study by DRI/McGraw-Hill[1], the London-based automotive analysts.

While worldwide new car sales are forecast to rise by 5.4 per cent this year to 34.95m units from 33.2m in 1993, in the longer term DRI suggests that sales could increase by close to 30 per cent to 42.5m in 1999.

Much of this growth will originate outside the traditional car consuming regions of western Europe, North America and Japan, however, with South Korea, China, Thailand, Latin America and eastern Europe offering the best growth prospects for the 1990s and beyond.

The short-term recovery is being driven chiefly by the strong rise in demand in North America.

New car sales in the US and Canada are forecast to increase by 11 per cent to 10.46m this year.

The latest DRI forecast suggests that the recession in the new car markets of western Europe and Japan has also bottomed out, and the focus for growth is expected to switch to these regions next year.

"The relatively prolonged recovery phase in Europe and Japan, plus the take-off of developing countries particularly in Asia, should set the scene for a steady improvement towards record levels of global car demand throughout the mid-1990s," says the study.

Sales in western Europe are set to rise by 3 per cent or more this year to 11.8m-11.9m, as the region begins to recover from last year's precipitous decline of 15 per cent, the biggest drop of the post-war period.

The recovery in Europe will gather pace in 1995 as both the German and Italian markets emerge more firmly from recession, and sales in western Europe are forecast to rise by between 6 and 7 per cent in each of the three years from 1995.

The DRI forecast suggests that western European new car sales will finally equal the previous peak years of 1991/92 in 1996 at around 13.45m. It expects continuing strong growth for the rest of the decade with new car sales rising to 15m in 1999.

However, a much less optimistic forecast has recently been issued by the Economist Intelligence Unit[2], which maintains that "the scope for western Europe's new car market to achieve growth beyond pre-recession levels in the next few years is limited". After recovering to 13.15m in 1996 new car sales are forecast by the EIU to remain within the range of 13m-13.5m for the rest of the decade.

While new car sales in Japan are forecast by DRI to rise by 5 per cent next year – after falling for three years in succession from 1991 to 1993 – the record level of 5.1m reached in 1990 is unlikely to be exceeded this decade.

The rate of decline in new car sales in Japan is slowing, and DRI forecasts a marginal rise in the whole of the year to 4.2m.

While the market may be bottoming out this year Japanese domestic car production is likely to suffer a further fall by around 3 per cent to 8.3m, a fourth successive annual decline from 9.9m in 1990.

In North America, new car sales and production are rising strongly this year, but DRI says that the "economy and car market now appears to be moving fast towards a cyclical peak in 1994.

"This will be a great year in the light vehicle market (in North America), but a combination of disappointing replacement demand, rising short-term interest rates and weakening consumer confidence in an economy, which cannot retain 1994's momentum, will lead to reduced car volumes in 1995."

Unlike some of the US vehicle makers, DRI is cautious about growth prospects for the remainder of the decade in North America.

It forecasts total light vehicle production rising only to 15.25m by 1999 with virtually all the production growth coming in light trucks rather than in cars.

There is expected to be continuing strong growth in both sales and production in the Asia/Pacific region (excluding Japan).

New car sales in this region have already grown significantly from 1.96m in 1989 to 2.8m last year and sales are forecast to jump again to 4.6m by 1999.

Sales in China could more than double, according to forecasts, from 430,000 last year to 1.1m in 1999, while new car sales in South Korea are forecast to grow by 50 per cent during the same period to 1.45m in 1999 from 963,000 last year.

Thailand, Malaysia and India are also expected to be strong growth markets.

The growth in new car production in China is forecast to be even more impressive with output nearly quadrupling from 241,000 last year to 925,000 by the end of the decade.

South Korean car makers are also urgently adding new capacity to make good their threat to break into the front rank of the world's auto makers.

The DRI report suggests that new car production in Korea could jump from 1.5m last year to 2.6m by 1999.

1 DRI World Car Industry Forecast Report. Price £3,100. DRI/McGraw-Hill, 1 Hartfield Road, London, SW19 3RU.

2 The New Car Market In Europe – 1994 Edition. Price £385. Economist Intelligence Unit, 15 Regent Street, London, SW1Y 4LR.

World car sales forecast (000s)[1]

	1993	1994	1995	1996	1997
World total	33,152	34,945	36,370	37,917	39,668
West Europe total	11,450	11,774	12,504	13,444	14,197
Germany	3,194	3,087	3,159	3,305	3,544
Italy	1,890	1,776	1,897	2,084	2,169
UK	1,778	1,933	2,062	2,232	2,307
France	1,721	1,933	2,031	2,150	2,267
Spain	743	785	891	1,021	1,054
East Europe[2]	1,334	1,366	1,472	1,550	1,675
Turkey	443	346	366	437	519
North America total	9,441	10,457	10,240	9,960	10,134
US	8,702	9,636	9,334	9,003	9,131
Japan	4,199	4,220	4,410	4,630	4,778
Asia Pacific total[4]	2,844	3,147	3,502	3,619	4,018
South Korea	963	1,072	1,167	1,256	1,315
China	430	481	618	758	791
Latin America total	1,889	1,835	1,916	2,062	2,262

World car production forecast (000s)

	1993	1994	1995	1996	1997
World total (net)[3]	33,648	34,936	36,637	38,793	40,191
West Europe total	11,331	11,654	12,412	13,602	14,130
Germany	3,753	3,771	3,866	4,120	4,315
France	2,836	2,823	3,024	3,282	3,282
Spain	1,505	1,620	1,749	1,824	1,897
UK	1,375	1,419	1,565	1,884	2,002
Italy	1,117	1,218	1,301	1,464	1,550
East Europe[2]	1,800	1,780	1,920	2,100	2,294
Turkey	348	296	326	394	469
North America total	7,482	8,371	8,284	8,185	8,170
US	6,135	7,081	6,988	6,860	6,794
Japan	8,497	8,255	8,610	9,037	9,131
Asia Pacific total[4]	2,806	3,231	3,635	4,033	4,494
South Korea	1,512	1,791	1,962	2,150	2,389
China	241	308	453	603	748
Latin America total	2,220	2,115	2,237	2,385	2,545

1 1993 actual, 1994-1997 forecasts.
2 Including Commonwealth of Independent States.
3 Excluding traceable double counting.
4 Excludes Japan.

Source: DRI World Car Industry Forecast Report - April 1994.

European suppliers are building a global presence, says **Kevin Done**

Fortunes begin to improve

The recession has left a heavy imprint on the financial performance of leading European automotive components suppliers, although companies believe that the industry's fortunes have begun to improve this year.

Some groups such as Valeo of France and T&N of the UK have improved profitability in the past two years, but few have been spared the painful task of drastic restructuring to cut costs and improve competitiveness.

Despite the challenge of dealing with widespread losses the front-rank European automotive components producers are also having to move aggressively to build a global presence and are expanding into new markets in particular in Asia and eastern Europe.

For the first time in the post-war period the Bosch group of Germany, the largest European components producer, suffered a substantial operating loss of more than DM500m last year. Under intense pressure from a 23 per cent fall in German vehicle production, its turnover also declined for the first time since 1967.

Bosch has accepted that its costs, along with those of much of German industry have been too high. "Because of global competition we can no longer cover our costs in some products," says Hermann Scholl, Bosch chief executive. "The situation is being exacerbated by the strong pressure, in particular from the car makers, to reduce prices significantly every year."

Structural weaknesses, which had been covered up by the surge in economic activity triggered by German unification, have been exposed by the recession, says Mr Scholl, and "drastic cuts" have had to be made to turn the company round. The Bosch group eliminated 13,200 jobs last year to reduce its workforce to 156,600, and Mr Scholl expects the workforce to be reduced again to 152,500 by 1995.

Magneti Marelli, the leading Italian automotive components producer and a majority-owned subsidiary of Fiat of Italy, has been loss-making for four years but plunged to its deepest loss of the period last year of L211bn ($132m) from a loss (before minority interests) of L53.3bn a year earlier.

Michelin of France, the world's largest manufacturer of tyres, was hit by a net loss of FFr3.67bn ($625m) last year, under the impact of depressed European markets and the costs of an ambitious restructuring programme. Sales fell by 5.3 per cent to FFr63.29bn.

Michelin is seeking to make savings of FFr3.5bn in its operations by 1995 through a package of job cuts and productivity measures.

Elsewhere in the European tyre industry Pirelli, the Italian tyre and cables group, managed to reduce its net losses last year to L96bn ($57m), compared with a loss of L154bn in 1992. Pirelli has suffered three years of net losses, and more than two years of painful restructuring. In the two years 1992 and 1993 Pirelli has had to set aside L550bn to pay for rationalisation, including 10,000 redundancies and the shedding of one of its three divisions.

Continental, the German tyre maker, avoided red ink last year but its pre-tax profit was more than halved to DM74m ($43.5m) in 1993 as a result of the decline in the world automotive industry. It is responding to the continuing downward pressure on prices by reducing fixed costs. A further 2,000 jobs are being cut this year, following a reduction of 4,900 in 1993.

In the UK, BBA suffered a pre-tax loss of £12.8m and is cutting 2,000 jobs as part of a rationalisation programme. It was burdened by restructuring costs of £76.8m last year mainly for redundancies and plant closures. Many of the job cuts are being made in the automotive components division, where operating profits fell by 43 per cent last year.

By contrast Valeo, the leading French automotive components group, which specialises in areas such as lighting, clutches, air conditioning, heaters, radiators and electrical systems, managed to achieve marginal increases in operating and net income with the latter rising to FFr705m from FFr700m a year earlier.

Valeo's group turnover also declined by 2 per cent to FFr20.2bn against the background of deep recession in Europe and recovery in North and South America.

It is benefiting from its policy of globalisation, it gained market share in Europe, and has been successful in significantly reducing its debt and its financial costs with net debt falling to FFr1.16bn by the end of 1993, from FFr2.15bn a year earlier.

T&N, one of the leading UK automotive components makers, which specialises in bearings, friction materials, and engine components such as pistons and piston rings, increased its pre-tax profits last year by 12 per cent to £70m helped by cost-cutting and winning increased market share.

Prospects are improving significantly for Europe's components makers this year, as the recovery from recession becomes more firmly established.

Mr Scholl maintains that Bosch will return to operating profit this year, and Michelin says that it is also well positioned to return to profit this year.

Sales of automotive components in western Europe (m units)[1]

	Actual 1992	Estimate 1993	Forecast 1995	Forecast 1997
Batteries	44.5	43.4	45.8	48.0
Brakes (inc parts)	315.0	307.0	337.0	360.0
Clutches	31.6	30.1	31.0	31.3
Exhausts	73.7	73.4	77.3	81.2
Fan belts	77.1	72.7	81.2	88.4
Filters (air & oil)	199.6	200.4	211.2	221.9
Gaskets	33.7	31.2	26.7	22.9
Lighting	30.4	25.8	28.3	29.5
Shock absorbers	69.6	62.8	66.2	69.0
Sparking plugs	577.8	554.7	527.7	501.7
Tyres	191.4	187.0	190.5	193.9
Wipers blades & arms	137.9	137.1	144.6	151.7

1 Original equipment and aftermarket combined. Source: EIU

Kevin Done discusses a report prepared for the European Commission

Call for drastic restructure

The automotive components industry is "the weak link in the European motor industry's competitiveness today", according to a controversial report prepared for the European Commission.

The study claims that the industry must restructure in the 1990s to close an "alarming" competitive gap with Japan and warns that more than 400,000 jobs are likely to be shed in the sector by the end of the decade.

The report, which was produced by the Boston Consulting Group*, claims that "unless drastic action is taken soon, the competitive gap in components risks widening even further".

The European Commission has contested the report's drastic conclusions about prospective job losses, but accepts that the "restructuring needs in the supply sector are particularly important".

In its paper earlier this year to the European Council of Ministers and the the European Parliament on the European auto industry, the Commission says that, "the international pressure on car manufacturers is being transferred to the EU component manufacturers, triggering substantial structural change".

According to the Boston Consulting Group report the EU components industry, which employed about 940,000 in 1992, and had an annual output worth Ecu92.7bn (£72bn), "will be under even greater pressure in the future". It claims the productivity of Japanese vehicle makers is around 30 per cent higher than that of European rivals, but in the components sector productivity is 2.5 times greater.

Employment in the industry is likely to fall to around 500,000 by 1999 from just under 1m. More job losses will follow those already announced in the past two years with several leading European vehicle makers demanding cost and price reductions of more than 10 per cent a year from suppliers.

If productivity continues to grow by 4 per cent a year as in recent years, employment in the industry would be reduced by 11 per cent by the end of the decade. "However, this level of productivity growth would leave the industry hopelessly unviable at the end of the period and in danger of collapse," maintains the Boston Consulting Group.

"If the European components industry were to reach, in 1999, the level of productivity of the Japanese industry in 1992, then employment would be reduced by 54 per cent, implying a 14 per cent per annum improvement." Even such a drastic cut in jobs, however, would not guarantee the EC reaching parity with the Japanese industry, which has lifted productivity by 5-6 per cent a year in the last decade. The report says the productivity gap must be at least halved as "the absolute minimum necessary for the industry to be in a position to survive after 1999".

The structure of the European components industry "is likely to change radically" with a clear movement to a tiered structure similar to that in Japan. The present fragmented European industry will be forced to restructure and concentrate. Vehicle makers are expected to reduce the number of direct suppliers by around two thirds between 1988 and 1997.

"A concentration of first-tier suppliers to around 500 principal ones in Europe is probable, with only 2-6 main competitors in the EC for most key subsystems." The number of companies operating as second or third-tier suppliers may fall by up to a third, warns the study.

The greatest challenge to improve productivity in the industry lies among the second tier suppliers, which are often small and medium-sized companies, "where awareness of means to improve competitiveness is least advanced".

Individual car makers have already taken action to cut the number of their direct suppliers from around 1,250 on average in 1988 to 900 at present, but the number is expected to drop to around 400 by 1997.

The upheaval now under way most critically in the German motor industry among both vehicle makers and their components suppliers is central to the restructuring of the entire European auto industry.

Germany alone accounts for 47 per cent of the production of the EU independent components industry (excluding production by the vehicle makers themselves), for 53 per cent of the sector's added value and for 46 per cent of employment. France accounts for 19 per cent of production, the UK for 12 per cent, Italy for 11 per cent and Spain for 7 per cent.

Concentration of ownership is one of the main structural changes facing the sector. The process is being driven, says the report, by "the lack of competitiveness of many suppliers in an extremely fragmented industry," and by changes in vehicle makers' policies towards:

■ More outsourcing and the transfer of design and development to the supplier industry;
■ The sourcing of components to single rather than multiple suppliers;
■ The purchasing of systems rather than individual components; and
■ The formation of strategic buying alliances.

As the industry restructures, it will be transformed. There will be fewer but larger suppliers. They will have a European presence assembling systems in factories near the car plants, and sub-contracting non-core production to second and third-tier suppliers. They will enjoy supply contracts for the lifetime of vehicles and will share R & D with the vehicle makers.

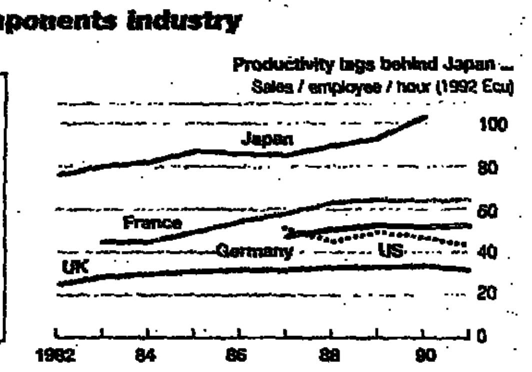
From a structure based on confrontation between the vehicle makers and their suppliers, the motor industry will also have to move "towards one based on partnership where profit is shared among the different players in the value chain".

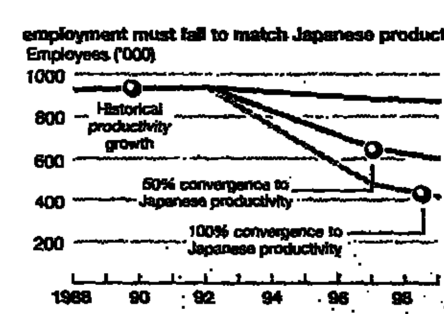
* The *Evolving Competitive Challenge for the European Automotive Components Industry. Boston Consulting Group. Devonshire House, Mayfair Place, London, W1X 5FH.*

The European automotive components industry

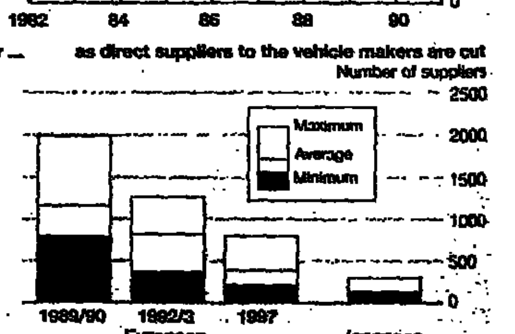
EU automotive component production 1992

Country	Ecu bn	%
Germany	43.6	47
France	18.0	19
UK	10.8	12
Italy	10.2	11
Spain	6.9	7
Rest of EU	3.2	4
Total	92.7	100





Source: Boston Consulting Group



■ Profile: ROBERT BOSCH

A mark of respect for German supplier

German-based Robert Bosch topped the list of automotive component suppliers in the recent Financial Times/Price Waterhouse survey on Europe's most respected companies. It was second overall in the Automobiles/Auto Trucks and Parts category, headed only by its compatriot BMW.

Perhaps this recognition for excellence among its competitors provides some consolation for recent trading conditions which, by any standards, have been exceedingly tough. They could hardly have been otherwise in the context of sharp declines in European vehicle production.

In the company's all-important German market, for example, car production fell by 23 per cent in 1993 and commercial vehicle output by 28 per cent.

Latest financial results highlight the damage caused, with total group turnover in 1993 falling by 5.7 per cent to DM32.5bn. Net income was down for the fourth consecutive year and, at DM426m, showed a decline of 16.8 per cent compared with the previous year and stood at its lowest level since 1985.

Capping the gloom, the company incurred an operating loss for the year, although the figure has not been revealed.

Although Bosch manufactures a wide range of consumer and industrial products, automotive equipment is easily the largest business sector, accounting for 49.7 per cent (DM16.2bn) of group sales in 1993.

This makes the company the world's largest independent supplier of automotive components and systems, and Bosch technology can be found on the products of every leading vehicle producer.

There are nine main automotive divisions producing a wide range of components and systems. Many fall into the category of traditional items such as starters, alternators, sparking plugs, head lamps and windscreen washers. But Bosch has also established a reputation for producing technically advanced products for vehicle safety, security, performance, comfort and fuel efficiency. With regard to safety, the company was the first to produce ABS (anti-lock braking systems), traction control and triggering devices for occupant restraint systems for the motor industry.

On the security front, Bosch is supplying factory-fitted electronic immobilisers to prevent unauthorised starting – a feature which is expected to become standard equipment on cars in the near future.

Meanwhile, the unique Blaupunkt "KeyCard" solution to car theft from Bosch's audio division has produced impressive results. KeyCard-equipped radios account for 5 per cent of the German market, but for just 0.4 per cent of the units stolen.

Improvements to vehicle economy and performance are achieved through diesel and petrol fuel injection, transistorised ignition, engine management systems and electronic gearbox controls.

The company is also in the forefront of developing systems to promote cleaner emissions.

Although the company has an extensive international presence with subsidiaries, affiliates or agencies in 125 countries and more than 70 foreign-based production facilities, 51 per cent of sales are made in Germany and around 85 per cent in Europe. Of the remainder, the Americas account for 13 per cent, which means that exposure to the fast developing south-east Asia motor industry is as yet limited.

Bosch research centre: in 1993, more than DM2.2bn was spent on R&D

One of the most successful foreign ventures is the UK manufacturing facility, located near Cardiff, where compact alternators are manufactured. The plant was opened in 1991 and at the time represented Bosch's largest single foreign investment.

Cumulative output recently passed the 5m level. As well as supplying UK vehicle assembly operations there is a sizable export trade to continental Europe, America and Japan – sufficient to propel Bosch into the Top 100 list of UK exporters.

There is a high priority on research and development. Of the group's 156,000 employees worldwide, about 12,000 are scientists, engineers and technicians involved in improving the functionality and reliability of existing products and developing new ones.

In 1993, Bosch allocated more than DM2.2bn to R & D, the same level as in the previous year and equal to 6.8 per cent of sales. In the face of falling turnover, therefore, Bosch has maintained its R & D momentum. Several examples indicate the type of products which Bosch will supply for tomorrow's vehicles.

In headlights, the company has developed a system which uses cherry stone-sized gas discharge lamps to produce twice the amount of light of conventional units together with improved range and width of illumination.

An electrical fuel pump has been developed which is 45 per cent lighter and 30 per cent smaller than previous designs.

And an electronic wiper system is under development which will eliminate the need for the driver to operate windscreen wipers manually.

Early in 1994, Bosch announced details of its latest ABS which contains both the hydraulic and electronic components in a single assembly. As well as being more compact and weighing less – crucial characteristics as vehicle makers attempt to make their products more fuel efficient – the new system also offers significant cost savings and will hasten the day when ABS is a standard fixture.

The company differs from global competitors insofar as about 92 per cent of its equity is owned by the Robert Bosch Foundation, which is charged with ensuring that the company's assets are administered for public benefit purposes. This means that the dividends received are donated to charitable causes.

While this status does not mean, of course, that there is no pressure to secure satisfactory financial returns, the company undoubtedly enjoys the luxury of not having to satisfy an outside group of hungry investors on a quarterly or half yearly basis, as is the case with the principal American and British component groups.

This has provided the necessary conditions to focus on long-term targets – notably in R & D – an especially valuable characteristic during the recent downturn.

Perhaps this freedom is Bosch's greatest asset.

Arthur Way

Kevin Done discusses Ford's drive to reform relations with suppliers

Global purchasing takes off

The bold move by Ford of the US, the world's second largest vehicle maker, to merge its North American and European automotive operations into a single operating unit, Ford Automotive Operations, will give fresh impetus to its drive to reform relations with its components suppliers.

Ford has embarked on the most drastic restructuring of its organisation in its 91-year history in a radical attempt to break down the traditional national and regional barriers inside the group in order to regain a competitive edge over its closest rivals.

From January 1 next year it is setting up five so-called vehicle centres, one in Europe and four in the US. Each centre will have worldwide responsibility for the design, development and engineering of particular vehicle ranges – in the case of Europe for small and medium-sized cars.

This radical shake-up of the Ford organisation will have a crucial impact on the purchasing of components and systems from outside suppliers, which typically in the world auto industry account for more than half of a car's ex-factory value.

Ford maintains that the development of a global components supply activity will provide "economies of scale, world-class supplier productivity and cost levels, improved quality, faster time to market, better product innovation and enhanced supplier design involvement and support". It will also mean that it will be able to choose the best products to be offered worldwide in any particular category. Under the new structure purchasing will be one of the functions subordinated to each vehicle centre, and it will operate globally.

Crucially it has been the CDW-27 project, Ford's first successful so-called world car programme, that has broken much new ground in preparing the way for the global reorganisation, and which in the process has brought Ford for the first time fully into the era of global purchasing of components and systems.

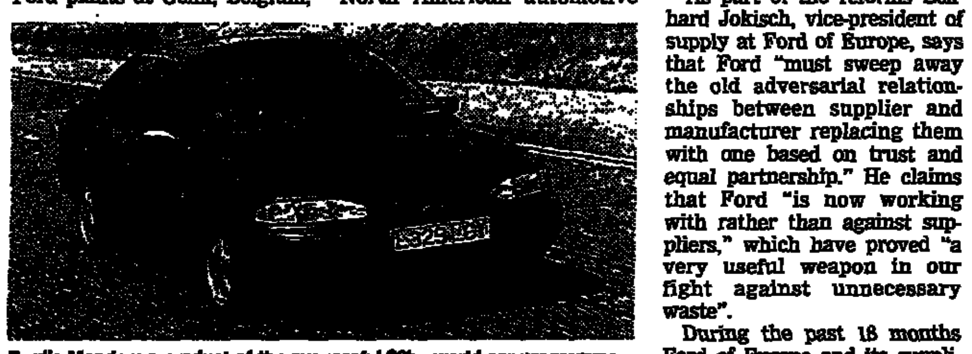
The $6bn project spawned first the Ford Mondeo large family car in Europe in spring last year, while its sister cars, the Ford Contour and the Mercury Mystique, will go on sale in Ford's showrooms across North America in the autumn. Assembly will take place at Ford plants at Genk, Belgium, at Kansas City in the US and at Cuautitlan, Mexico.

After a global search, common component producers have been chosen in many cases to supply the European and the US and Mexican assembly plants.

Albert Caspers, the new chairman of Ford of Europe, says that the share taken by north American suppliers of the European-built Mondeo has jumped to 15 per cent from only 1 per cent to 2 per cent in Ford of Europe's traditional programmes. "We have also brought many European suppliers to North America and some have made joint ventures in the US," he says. "The philosophy was to develop a part only once from one supplier for the world. This is the first project where we have done this."

As a result of the effort to develop an integrated, global supply base there has been a drastic reduction in the total number of suppliers. The soon-to-be-replaced US-built Ford Tempo/Mercury Topaz range has more than 700 suppliers – all in North America – whereas the successor Ford Contour/Mercury Mystique models will have only 227 suppliers, drawn from around the world.

According to Kerry Caliman, the CDW-27 project manager for purchasing for Ford's North American automotive operations, "the more business you can source globally, using the same supplier for the same part for both North America and Europe, the more you'll benefit from economies of scale and focused quality control efforts." Ford is planning sales volumes for the CDW-27 product range of around 300,000 a year in North America, 400,000 a year in Europe and a total of around 800,000 a year worldwide.



Ford's Mondeo: a product of the successful $6bn world car programme

Mr Caliman says that another cost advantage lies in placing long-term contracts with suppliers and in single sourcing. "That gives us the opportunity for quality advantages and productivity cost reductions from these suppliers – and that has bottom-line impact."

Around 65 per cent of the total CDW-27 vehicle costs are covered by parts that are either:

■ Single-sourced from one supplier shipping from one location in the world to all three assembly plants;

■ Single-sourced from a single company, but the company has manufacturing or shipping locations in both North America and Europe; or are

■ Dual-sourced, so that Europe and North America each has its supplier, but the part can be common and there are two sets of tools.

As part of the reforms Eckhard Jokisch, vice-president of supply at Ford of Europe, says that Ford "must sweep away the old adversarial relationships between supplier and manufacturer replacing them with one based on trust and equal partnership." He claims that Ford "is now working with rather than against suppliers," which have proved "a very useful weapon in our fight against unnecessary waste".

During the past 18 months Ford of Europe and its suppliers have set up more than 200 teams, made up equally of Ford and supplier personnel, aimed at cutting costs and waste at Ford itself and at the suppliers.

The teams select components for analysis and are empowered to take cost reduction actions bypassing Ford's "traditionally slow systems," says Mr Jokisch. The teams analyse the complete supply chain from design and development through testing and manufacture right up to assembly into the finished vehicle.

"We believe that if we apply this analysis to all commodities, we can cut material costs by 25 per cent," says Mr Jokisch. The cost savings can be achieved not by cutting supplier profit margins, he insists, but "by eliminating the waste that exists in the supply chain".

■ Profile: LUCAS INDUSTRIES

Re-emerging market force

Within the next few weeks Lucas Industries, the automotive components and aerospace group which with nearly 40,000 employees world-wide is one of the UK's largest companies, will start coming out of its self-imposed purdah.

George Simpson, former chairman of the Rover vehicles group, took over as Lucas's chief executive in April. He is already putting the final touches to a management restructuring and by autumn will have undertaken a complete review of Lucas's activities and strategies.

It will largely determine Lucas's prospects of remaining a substantial long-term participant in a world motor components sector becoming ever more viciously competitive. It is also one in which many western manufacturers have shown considerable capacity for self-delusion in terms of their productivity and quality achievements compared with rivals from Japan.

As John Neill, chief executive of the Unipart components group, pointed out at last month's launch of Cardiff Business School's "lean" enterprise research centre, the UK government's recent white paper on UK industrial competitiveness highlighted an average performance deficiency compared even with other western competition.

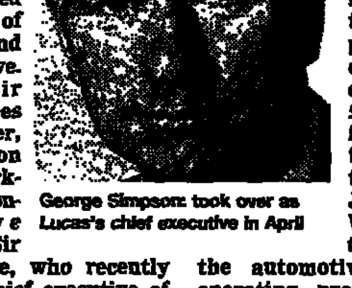
What was particularly worrying, said Mr Neill, was that "only 2 per cent of UK companies were found to be world class – but 73 per cent thought they were".

Relatively few in the UK motor industry have been better placed than Mr Simpson to see a "world class" Japanese company in action, as a result of his long involvement with the 14-year partnership between Rover and Honda.

Mr Simpson is widely credited with the transformation of Rover from a minor lame duck car maker to a still minor producer, but one with enough restored prestige for BMW to have been willing to pay £800m plus debt assumptions for it.

So, much as Lucas has improved its own motor components productivity and quality over recent years, it is only to be expected that institutional and other backers are looking to Mr Simpson to give substantial new impetus to Lucas.

Mr Simpson's own appointment at Lucas marks a sharp break with the past. For nearly a decade Sir Anthony Gill had combined the posts of chairman and chief executive. When Sir Anthony goes in November, Mr Simpson will be working with a non-executive chairman, Sir Brian Pearse, who recently retired as chief executive of Midland Bank.



George Simpson: took over as Lucas's chief executive in April

By any measure, Lucas is one of the leading companies on the world components scene. It supplies virtually every principal vehicle maker throughout the world with a wide variety of key components and systems.

It is a leading source of engine management and injector systems for petrol and diesel engines. It is one of the world's biggest manufacturers of braking systems. It produces many electrical and electronic systems, ranging from wiring harnesses to electronic control units (ECUs).

The automotive activities, including supplies to the after-market, are the group's most important, accounting for more than 60 per cent of total sales. There is no lack of apparent confidence at the company, even if it is not yet Mr Simpson who is expressing it.

Earlier this year senior managers were declaring the view that higher productivity and rationalisation benefits, coupled with substantial cost-cutting under a restructuring programme begun in 1992, are opening the way towards sustainable 10 per cent margins – higher even than at the peak of the eight-year motor industry boom of the 1980s.

It is a confidence yet to be reflected in Lucas's overall profitability. Lucas Industries made a pre-tax profit of only £20.1m on sales of £1.19bn in the first half of its financial year to the end of January. Within this total, however, the automotive business's operating profit increased from £13m to £27m on sales of £830m and Sir Anthony insists that this will continue to rise sharply when firm recovery sets into continental Europe's vehicle markets.

Restructuring and cost-cutting activities have been substantial. More than £75m has been raised from divesting non-core businesses and further disposals are in prospect. Some £60m costs were reduced last year, with 4,860 jobs lost.

At the same time, Lucas has not been reluctant to make investments in areas which it believes will provide substantial long-term growth opportunities, particularly Asia and Eastern Europe.

A venture to manufacture brakes in China is in prospect, for example, while in the Czech Republic it has formed a joint venture with Autobrzdy to supply Volkswagen-controlled car maker Skoda with rear axle assemblies.

Lucas is also active in India, which is starting to attract serious attention from the world's car and components makers as it grows under the Indian government's industrial liberalisation plans.

It has a long-standing venture with TVS, one of India's 20 biggest industrial conglomerates, originally to produce generators for Hindustan Motors' Ambassador cars but now also embracing production for Maruti Suzuki-based small cars.

Nor has the UK and elsewhere in western Europe been neglected.

Some 650 jobs are to be created over the next 18 months in England's Tyne and Wear region by Lucas SEI Wiring Systems, a joint venture with Sumitomo Electric Industries of Japan, which is constructing a plant to make wiring harnesses for Honda, Rover, Toyota and Jaguar. Production is expected to start early next year after an investment of £15m-£20m.

At Bouzonville in northern France, nearly £30m is being invested in completely overhauling the plant and processes for brake caliper manufacture, creating an integrated manufacturing system claimed to be "world class" measured by Lucas's benchmarking programmes.

Earlier investments in North America and in the rapidly-growing diesel vehicle sector have also begun to pay off. Some £150m spent on expanding capacity to produce diesel injectors and management systems for trucks as well as cars has allowed Lucas to increase its European market share in the sector.

John Griffiths

The parts business in the US is undergoing a transformation, says **Frank McGurty**

Bond with America's Big Three tightens

With the uncompromising courtesy that one might expect from a Japanese business executive, the head of international purchasing at Toyota came very close to reading the riot act to the company's US suppliers a few weeks ago.

The official, Koichiro Noguchi, warned representatives of 124 component makers that Toyota had no plans to extend a commitment to increase purchases of US-made parts beyond 1996, when the voluntary agreement expires. The main problem, he said, was the sub-standard quality of their products. Despite intense political pressures, "further growth in our US purchasing will depend on further gains by American suppliers in raising quality", Mr Noguchi warned.

To a casual observer, such criticism would suggest that little has changed in the US component industry over the past five years. During a period when many sectors have made great strides in improving their international competitiveness, it would appear that the parts business stood still or even regressed.

Poppycock, say analysts. In fact, the industry is in the throes of a radical transformation which has already paid off in handsome productivity gains, drastic price reductions and more reliable products across the board. The misleading impression given by Toyota only underlines the arm's length relationship it maintains with the US suppliers, analysts argue.

"If the Japanese car maker let the parts supplier be a full partner," says Scott Merlis, an analyst at Morgan Stanley in New York, "the quality would be fully built into the design. Any subsequent manufacturing problem could be quickly debugged with the help of the car maker."

Mr Merlis's observation cuts to the heart of the forces shaping the component industry. Analysts say a much tighter bond has developed between the Big Three US car makers and those suppliers that have survived a painful consolidation. In fact, the closer relationship between the two sides is the defining feature of the industry's evolution in the 1990s.

As the decade began, Ford and Chrysler were determined to streamline their supply systems and slash the cost of components. The drive was part of a strategy to recapture market share from the Japanese.

General Motors got off to a late start in 1992, when José Ignacio Lopez de Arriortua, then head of worldwide parts purchasing, moved to shake up GM's supply network with controversial – some might say heavy-handed – tactics.

The most apparent result of these efforts is a drastic shrinkage of the supplier base. Over the past five years, the number of parts makers under contract has dropped by about a third to 2,000. By 2000, 20 per cent fewer suppliers are expected to be under contract with the Big Three.

The main beneficiaries have been big, publicly-traded companies such as Eaton, Magna International and Hayes Wheels. In a highly fragmented business still dominated by small, privately held manufacturers, those well-capitalised suppliers with full research and development capabilities are expected to command 75 per cent of sales by 2,000, up from 50 per cent now. "In most component areas, the industry is going to wind up with two or three big players, rather than 15," says James Alexandre, the Donaldson Lufkin & Jenrette analyst.

The reason is simple. The Big Three have decided to use fewer suppliers, often contracting with just one or two companies for any one part or system, such as suspensions or wheels. With more orders going to a handful of manufacturers, the lucky few have been able to achieve greater efficiencies and meet Detroit's demands for price reductions.

Productivity gains have ranged from 2 to 6 per cent a year, while prices paid by the Big Three are falling 3 to 5 per cent. Detroit has rewarded suppliers which are able to deliver the goods cheaply with longer-term contracts. Five-year deals are now common in an industry which once worked on a year-to-year basis.

The extended time frame has encouraged suppliers to take more risks in investing in new technology, which in turn has triggered a second shift – towards more "outsourcing". The Big Three are using fewer parts made in-house because they lack capital to keep up with the latest innovations. To cut costs and improve quality, "the car makers are going to the people who are the experts", says Mr Alexandre.

Lear Seating, a Michigan-based company with $2bn in annual sales, highlights the trend. Its business has snowballed, as it became the sole source of Ford's seats, winning big supply deals with Chrysler, GM, BMW and other European producers along the way. In the case of Ford, the car maker in effect spurred consolidation while outsourcing its needs by agreeing last November to sell its own seat-manufacturing operation to Lear for $170m.

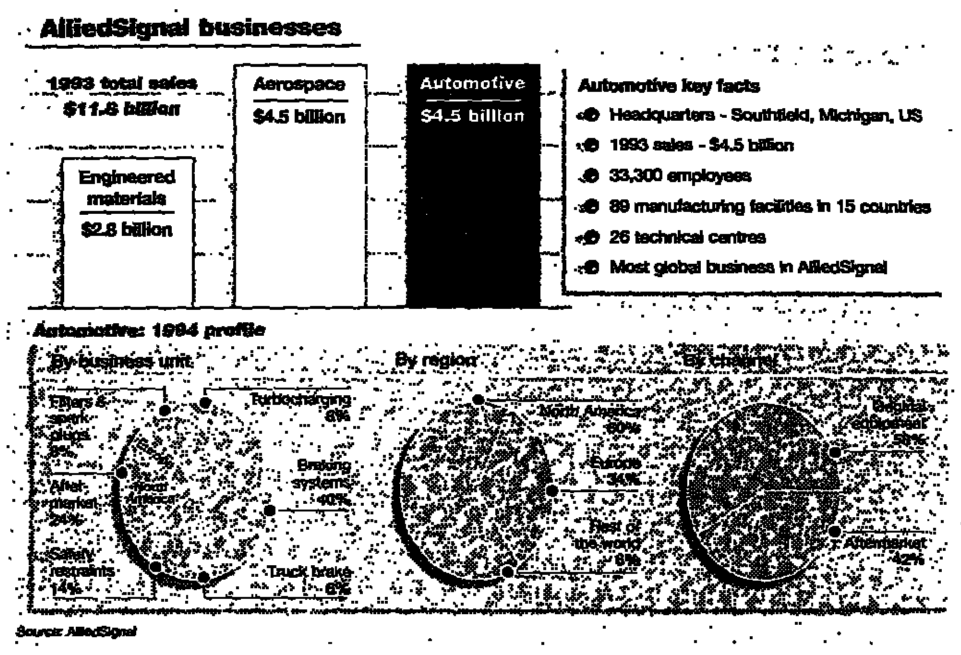
The confluence of these forces should result in robust growth for the so-called Tier 1 suppliers in the coming years, even if car sales tamper off from their recent acceleration. Kemper Securities expects US vehicle sales to jump 9 per cent this year and a solid 6 per cent in 1995. However, revenues and earnings for the principal component makers are expected to outstrip those levels.

Mr Merlis forecasts Lear's top-line growth at 40 per cent. For Eaton, a big, diversified group specialising in vehicle power-trains, a 25 per cent jump in 1994 revenues to $5.5bn is projected by the Value Line investment survey, following a 12 per cent advance the previous year.

Meanwhile, Kemper Securities picks Automotive Industries, Dana, Simpson and Superior Industries as this year's high-flyers. Those companies are expected to realise strong gains in market share by acquiring rivals and winning more contracts.

By turning more frequently to such companies, the Big Three have in effect allowed themselves to grow more dependent on their suppliers. The component makers are increasingly called on to deliver whole systems ready to be snapped into the car during assembly, which helps lower costs. The requirement, however, has forced the supplier to assume a role in the design process, rather than just bidding on a blueprint. Later, it must take a more active role in the assembly process, rather than simply delivering consignments to the factory gate.

"Improved quality is a by-product of this alliance, as parts can be more accurately designed on a product-specific basis with manufacturing requirements in mind," writes Kemper in a recent investment advisory. That is not to say that US suppliers have achieved parity with their Japanese counterparts, though there are exceptions. Magna International, Canada's biggest parts company, is singled out by analysts as a producer of first-rate parts.



Source: AlliedSignal

■ Profile: ALLIEDSIGNAL

Technological brakethrough

AlliedSignal, the US engineering group, has established a leading position in three key areas of the automotive components industry – braking, safety systems and engine components.

It's automotive components operations had a turnover of $4.5bn last year and accounted for around 38 per cent of total group turnover of $11.8bn. With 33,000 employees the automotive division accounts for a similar share of the total group workforce of 86,000.

AlliedSignal claims to be the world's largest independent producer of car and truck brakes under the brand names of Bendix and Jurid, and the group is achieving rapid growth from a modest base in anti-lock braking systems (ABS) for cars and trucks. It has won contracts to supply the ABS systems, for example, on important new products such as the Ford Mondeo large family car and the Chrysler Neon small car.

Its market share in ABS systems in Europe and the US remains less than 10 per cent, but the group claims that it is developing more advanced technology, which should strengthen its competitive position by 1996.

Under the Garret brand name it is the world's largest producer of turbo chargers and is expanding this business in particular in Europe with the growth of the turbo-diesel market for cars.

Its biggest growth business is the production of safety restraint systems, where the group is an important supplier of seat belts and driver and passenger side airbags.

The share of the group's main markets in its overall automotive turnover has changed significantly during the past two years as a result of the rapid growth in the North American market and the decline in European car and truck sales.

Sales in North America accounted for 60 per cent of automotive turnover last year compared with 34 per cent in Europe and 6 per cent in the rest of the world, while a year earlier Europe accounted for 49 per cent compared with 45 per cent in North America.

Its top 10 automotive customers include the big three US vehicle makers, the four European-owned volume car makers, as well as Navistar, the US truck maker, Nissan, the Japanese car maker and Mercedes-Benz, the German car and commercial vehicle producer. Its biggest gains have come from new contracts won from Chrysler, however, to which its sales jumped by 34 per cent last year due to growing orders for ABS braking and safety restraints systems.

While AlliedSignal's total automotive turnover was virtually unchanged last year, it increased its net profits by 30 per cent to $184m from $142m a year earlier and $54m in 1991 (excluding special charges) as a result of improved productivity and a reduction in materials costs.

To improve its operating efficiencies the group began two years ago to rationalise the number of its locations worldwide and by the end of 1993 it had closed 20 operating plants. In 1992 alone it reduced the automotive workforce by 7 per cent including a 50 per cent reduction in Brazil, where it has suffered continuing losses.

At the same time the group is expanding its presence worldwide, however, through a combination of acquisitions and alliances. It has entered into a worldwide truck brake joint venture with Knorr-Bremse of Germany. The combined operation has annual sales of $650m and a workforce of 4,600. AlliedSignal owns 65 per cent and has management control of the North American operations including Mexico, while the German group owns 65 per cent and has taken management control of the joint venture operations in Europe and South America.

In other moves AlliedSignal has formed an airbag joint venture in Europe, initially to supply Opel and Fiat with a new form of hybrid airbag inflator. It has acquired an aftermarket distribution network in Mexico, has opened a seatbelt plant in Spain and has established an airbag marketing and engineering staff in Japan. Earlier this year it acquired the seat belt business of Gilardini, the Italian components group.

The group is also restructuring to meet the growing demand from auto makers to provide complete systems rather than simply components. "This is a trend that has been talked about for years, but which is only now really taking shape," says Ralph Reins, president of AlliedSignal Automotive.

"In the past we saw our role as merely the component supplier, with the customer responsible for how things fit together. Now we are responsible for the total system."

Kevin Done

Ian Robertson looks at Japanese trade with the US

Tide begins to turn

What political pressure has so far failed to achieve, in reducing Japan's annual $10bn surplus in auto parts trade with the US, may yet be resolved by market pressures.

Confronted by the twin problems of a relentlessly high yen and the consequent drop in domestic production of more than 2m vehicles since 1991, Japan's component producers reported a decline in profits of around 25 per cent a year. The profit/sales ratio for the country's 20,000 suppliers slipped to 0.6 per cent for 1993/4 and a significant rationalisation of the sector is forecast over the next five to 10 years with an increasing number of mergers, acquisitions and alliances.

A wave of cost-reduction programmes by suppliers began in 1993. Their effects will be seen on new models produced from 1997 when the supply sector anticipates the beginnings of a recovery for the country's components producers. Parts sharing is on the rise by the vehicle manufacturers, breaking down the old *keiretsu* system of exclusive supplier networks. Product life cycles are being extended and the number of model variants is being reduced, all of which will assist economies of scale by component suppliers.

Despite US pressures, however, imported components accounted for only 3 per cent of completed vehicles in Japan in 1993. The latest round of June trade negotiations in Tokyo failed to achieve any formal breakthrough in the US campaign to raise this imported percentage.

The industry, however, is already moving towards an informal resolution by stepping up its plans for overseas procurement. In an interview with The Economist Intelligence Unit last month, the chairman of the Japan Auto Part Industries Association (JAPIA) declared that "regardless of the outcome of the talks between the two governments, Japanese auto parts companies are going to transfer more of their production capacity to the US, and increasingly vehicle manufacturers are seeking to source more of their components from the US.

"For Japanese auto transplants in the US, in the future they will buy almost all their components from North American suppliers rather than importing them from Japan." The driver is the need to cut costs and remain competitive – with the added threat of low-cost emergent producers in the neighbouring Pacific Rim. Already this has triggered some US/Japanese agreements to co-operate in their approaches to third countries, such as China.

Overall, Japan is committed to the purchase of $19bn of US auto parts by fiscal 1994 (ending March 1995). The Clinton administration, taking a "results-oriented" approach, wants Japan to guarantee numerical targets comprising $1.5bn for US purchases and $4bn for imports – as was agreed during President Bush's January 1992 visit to Tokyo. It also wants a more detailed breakdown of planned purchases charging that, last year, one-sixth of US components sold in Japan were tyres, many of these sourced from the US subsidiaries of Japan's largest tyre producers, Bridgestone, Sumitomo Rubber and Yokohama Rubber.

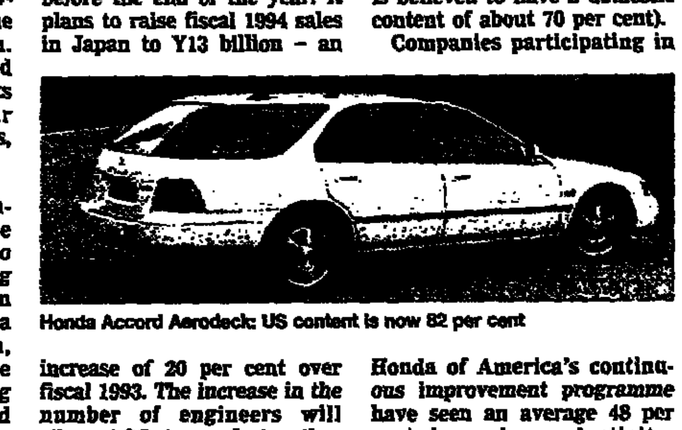
Japan, however, insists the agreement related to enhanced opportunities to sell US parts, with no guarantees on net sales levels. Moreover, with the interim slump in vehicle output, the $4bn import target is considered, by the industry, to be out of reach. Although the US trade deficit in auto parts has climbed from $1bn in 1981 to more than $10bn, it is argued that in yen terms, the increase was less than half the dollar amount and since 1990 there has actually been a decrease.

With the dollar holding at near record highs, US components producers are stepping up their efforts. GM's Automotive Components Group (ACG) Asia is to increase its staff of engineers by 30 per cent to 130 before the end of the year. It plans to raise fiscal 1994 sales in Japan to Y13 billion – an increase of 20 per cent over fiscal 1993. The increase in the number of engineers will allow ACG to work together with Japanese auto makers from the design stage.

TRW sold an estimated $700m of components to the Japanese last year – up from $60m in 1985 – and it has set a target of $1.5bn by 1997. Ford opened a $4.5m technical centre in East Hiroshima last October and hopes to double its sales in Japan in three years' time.

Other companies in the process of upgrading their Japanese operations include Rockwell International, Garrett Turbo, Intel and Motorola. Compared with fewer than 10 a decade ago, there are now an estimated 80 US component manufacturers with representation in Japan aimed at accessing Japan's $140bn auto parts market.

Among the transplants in North America, the US content of Accords built by Honda of America Manufacturing now stands at 82 per cent; Honda of America produces all its engines in-house, one of the reasons for the high local content rate. (Chrysler Corporation, which imports Mitsubishi V6 engines for several models including the Dodge Acclaim, is believed to have a domestic content of about 70 per cent).


Honda Accord Aerodeck: US content is now 82 per cent

Companies participating in Honda of America's continuous improvement programme have seen an average 48 per cent jump in productivity. Toyota also claims that, through quality control systems introduced at its US suppliers, defect rates have been lowered to a negligible 0.2 per cent compared with 2.5 per cent for the same suppliers in their dealings with the US Big Three. Sales to the US transplants are viewed as the first step in selling directly to the factories in Japan.

The Japan Automobile Manufacturing Association (JAMA) insists that the purchase of US auto parts is increasing. Over the past five years the number of contracts has more than doubled and the number of suppliers tripled.

Nissan claims that the $3bn of local parts it procured in the US last year already exceeded its voluntary plan of $2.9bn for 1994. It plans to increase local procurement of US-made parts by 75 per cent to $3.4bn in fiscal 1997 and to increase parts imports by 7 per cent to $1.7bn in fiscal 1988, up from an estimated $980m.

Toyota reports that it raised its purchases of US-made car parts by 5 per cent last year to $4.7bn or more than four times the $1.1bn it spent five years ago. Toyota expects to lift its procurement of US-made car parts to $5.3bn in the year to March 1995.

The company holds annual meetings with US component suppliers with the aim of fostering long-term business relations and promoting purchases of North American products. It now imports into Japan parts from 131 North American suppliers and purchases auto parts from 301 suppliers in North America for its transplant operations – up from 70 and 130 firms respectively in 1990 – and its Camry model is to go to 80 per cent local content in 1995.

Mitsubishi Motors, which has also been looking at buying in lower-cost steel from South Korea, is investigating opportunities to source components from US suppliers to its Diamond-Star transplant operation for its Japanese-made cars. Local procurement in the US is expected to rise to between $1.4bn and $1.6bn in fiscal 1996 from $650m in fiscal 1993. Exports of components and materials to Japan will rise from $260m in fiscal 1993 to $350-$440m in fiscal 1994.

Mazda has announced a new international co-operation programme in which it forecasts that by fiscal 1997 its parts imports will rise 55 per cent from the $870m recorded in fiscal 1993.

As well as encouraging foreign suppliers to participate in its design activities the programme also calls for the provision of support to second-tier suppliers in the US.

■ Profile: AUTOMOTIVE COMPONENTS GROUP

Parts giant expands

General Motors last month announced a restructuring of its top management which, in the process, gave greater autonomy to its components operations, ACG (Automotive Components Group), to seek business with virtually any car or truck maker anywhere in the world.

The intention is that by 2003 more than 50 per cent of ACG's sales will be to customers outside the GM group in North America, compared with only 15 per cent at the start of the 1990s. It will be spanning the world with a matrix of manufacturing plants and joint ventures capable of supplying any manufacturer with complex components systems wherever they might choose to set up assembly plants.

With a $25.1bn turnover last year, ACG is already at least twice as big as its nearest rivals, as well as having a broader product spread within its six divisions.

And it has already made progress towards its long-term goal. Around 27 per cent of last year's turnover, or nearly $7bn, was earned from customers outside GM's North American Operations (NAO) and the figure is expected to rise to more than 30 per cent by 1996.

It employs 178,000 people world-wide, operates 180 manufacturing plants in 23 countries and has 13 technical centres and proving grounds spread around the world. In 1987, it had 109 plants located within North America and 51 outside. By last year there were only 86 plants in North America, with 95 overseas.

The non-NAO business is not wholly non-GM. It includes unquantified sales to Opel, GM's German cars division, and other GM subsidiaries, although Mr J.T. Battenberg 111, its president, maintains that ACG is having to fight for the business like anyone else.

Already ACG is present in all 20 of the world's principal vehicle markets and can supply most systems to any outside company. Among recent contracts is supply of the dashboard module, wiring harness and other components for the leisure four-wheel-drive vehicle Mercedes is to start producing in Alabama in 1998.

Ned McLurg, a GM vice-president and general manager of the newly-formed AC Delco Systems division, also stresses the substantial business his division has won with Toyota as well as the Japanese car maker's highest quality award.

"Other manufacturers are saying to us, sell us what you've done for Toyota," says Mr McLurg – despite Toyota recently issuing a warning to some of its North American suppliers that quality needed further upgrading.

Mr McLurg readily acknowledges that rivals, in particular those based in Europe, are not going to yield sales meekly and says there is "no question that going head to head with rivals like Siemens and Bosch would be difficult". Instead, he says, "there are still component areas where they don't have a presence and there are also big opportunities in new products as emissions legislation tightens further, such as exhaust gas recirculation equipment".

ACG comprises Delco Chassis, Saginaw (steering systems), Harrison (thermal management systems), Packard Electric, Inland Fisher Guide and AC Delco Systems, newly created by combining AC Rochester (engine management) and Delco Remy (electrical energy storage and conversion). Additionally, two other entities, ACG Europe and ACG Asia Pacific, are charged with finding non-NAO business.

ACG was set up in 1988, at a time when there were 13 components divisions with 300 product lines.

As the long 1980s global motor industry boom ended, profits – based heavily on unrealistic internal GM transfer prices – evaporated. Between 1992 and this year there were a number of strategic initiatives based on a sombre evaluation of strengths and weaknesses.

ACG felt that within its core businesses it had recognised good technology and quality, and in places competitive cost structures and margins as well as good relations with most other large vehicle makers. But there was also an uncomfortable number of uncompetitive operations with too many high-cost manufacturing sites, too many product lines and too great a dependence on "captive" GM business.

"We had arrived," recalls Mr Battenberg, "at a strategic crossroads."

Systematic benchmarking against world-class suppliers was introduced and a target 10 per cent average growth rate set for non-NAO business. Product lines were cut to 155 from 300. In 1993, non-NAO sales hit $6.6bn, representing 27 per cent of total turnover.

The target set at the start of the overhaul of reaching 30 per cent non-GM North America business by 1996 is now certain to be exceeded.

John Griffiths

The Japanese industry faces challenges of epic dimensions, says **Arthur Way**

Recession forces urgent rethink

Japanese component suppliers may be excused a hollow laugh at the crisis alleged to be facing their counterparts in Europe, as set out in the European Commission's study into the sector. But feeling sympathy for the Europeans is altogether another matter, since the Japanese components industry itself faces commercial, economic, financial and political pressures which pose challenges of epic dimensions.

The problems start at home where component suppliers are still smarting from the length and depth of the motor industry's recession. Poor domestic demand coupled with slumping exports in the context of world-wide recession and the strength of the yen have led to a marked cut in orders.

In 1993, Japanese car production fell by 9 per cent, while commercial vehicle output declined by 13 per cent. Moreover, the rot has continued into 1994 with vehicle output falling by around 12 per cent during the first quarter – although more recently there have been signs that Japanese car buyers are coming out of hibernation. However, the strength of the yen remains a serious barrier to the motor industry's export effort.

It is hardly surprising that latest financial results have made dismal reading. In the tyre sector, for example, Bridgestone – the number one manufacturer – saw its turnover fall by 8 per cent in 1993 and suffered a 53 per cent decline in pre-tax profits. The company cited a sharp reduction in orders from domestic car manufacturers, a sector where it holds a 50 per cent market share, as the principal cause.

In addition, the Japanese replacement market was depressed with consumers trading down to cheaper brands and, adding a further twist, prices came under severe pressure. The same circumstances led Sumitomo Rubber to experience a 13 per cent drop in turnover and a 69 per cent fall in pre-tax profits.

In another product category, the ball-bearing producer NSK recorded an 8 per cent fall in turnover and a 20 per cent decline in pre-tax profits during the year to end-March 1994. The underlying trend was even worse, since a profit was achieved only by realising a capital gain through the sale of investments. Sales to motor industry customers fell by an above average 9 per cent.

Vehicle manufacturers' profits have been sliding, too, with consequent wide-ranging cost-cutting measures. These seem likely to have an adverse impact on the components sector. Reports indicate that vehicle producers are taking a robust approach during supply contract negotiations and are seeking substantial price reductions in an attempt to restore profitability and compensate for the yen's strength.

Toyota, for example, is understood to be looking for price reductions of around 15 per cent during the three years to 1997, while Mazda – which incurred a pre-tax loss of Y48bn in the year to end-March 1994 – is looking for quicker results with price cuts of around 10 per cent during the 1994/95 financial year. Even the smaller producers are in the hunt for big reductions. Daihatsu is believed to be seeking an across-the-board reduction in unit component prices of 20 per cent over the next three years.

Failure to meet these "requests" could result in an increasing volume of component imports from other nations in south-east Asia such as Korea, the Philippines and Thailand where unit costs are lower. Longer term, the region will provide Japanese vehicle makers with an increasing range of component sourcing options, many of which will be exercised in the interests of maintaining international competitiveness.

Some of these new vehicle manufacturing ventures are being established with help from Japanese manufacturers, and it is logical to expect growing ties which will involve, among other things, an increasing flow of components into Japan from cost-effective sources. Honda is well advanced in establishing a components supply network in south-east Asia, while Mitsubishi is importing parts from Korean-based Hyundai.

Another threat arises over the likelihood of rising component shipments from America, as Japan comes under mounting pressure to narrow the trade gap. The five largest Japanese vehicle producers – Toyota, Nissan, Honda, Mitsubishi and Mazda – have all announced plans to boost purchases from American component producers. This will involve a higher level of imports into Japan for domestic vehicle assembly as well as greater use of local suppliers in overseas assembly operations.

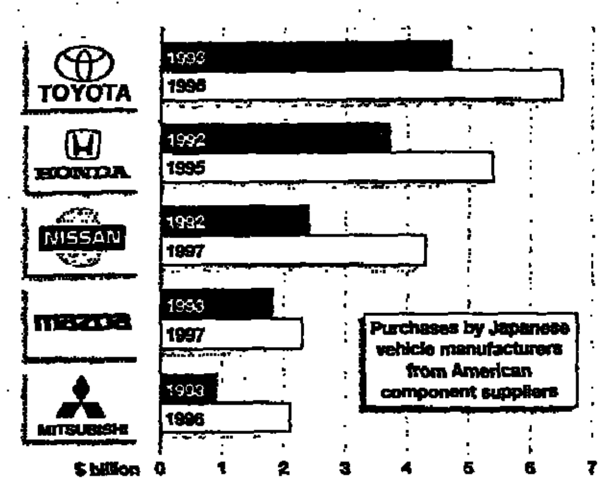
Toyota envisages that its purchases from American component producers will rise by $630m in 1994 from the $4.7bn level in 1993, increasing still further to $6.5bn in 1996. Nissan's purchases are due to rise from $2.4bn in 1992 to $4.3bn in 1997, Mitsubishi's from $900m in 1993 to $2.1bn in 1996, Honda's from $3.7bn in 1992 to $5.2bn in 1995, and Mazda's from $1.8bn in 1993 to $2.3bn in 1997.

Even without this political pressure, the currency factor has resulted in overseas assembly plants of Japanese vehicle producers stepping up their purchases from local sources rather than using high cost supplies from Japan.

All the factors mentioned are combining to force an urgent rethink among Japanese component suppliers concerning the most appropriate strategy for future survival. First-tier producers of systems are likely to expand purchases of materials and components from foreign sources.

Another trend widely expected is an increase in partnerships with American and European companies to share research and development costs and facilitate entry into a wider international marketplace.

Planned component purchases



Source: FT newsletter: Automotive Components Analyst

Arthur Way checks progress in promoting manufacture of parts

China gears up for the future

Vehicle and component manufacturers with the necessary financial, managerial and technological resources are shaping up to participate in the development of China's motor industry. The experience promises to be exciting, occasionally bumpy, but ultimately highly rewarding.

In 1993, the country's vehicle output amounted to a reported 1.26m units with the emphasis on commercial vehicles. Government forecasts indicate that production will rise markedly by the end of the 1990s to 3m a year with cars and multi-purpose vehicles (people carriers) accounting for much of the increase.

Further substantial growth is virtually guaranteed as the country fulfils its promise to become one of the world's leading economies.

Recent years have witnessed a hectic pace in motor industry development. Component industry investment, though, has tended to lag.

To allow the components sector to catch up, the government recently announced plans to withhold approval for new vehicle manufacturing projects until 1996. The only venture expected to escape this freeze is the proposed minivan project, for which Chrysler is the main contender.

Moreover, approval for any future vehicle assembly operation is expected to be conditional on achieving an initial local content of at least 40 per cent, rising to 60 per cent within three years.

Official policy favours an expansion in the components sector. This is being promoted in two main ways. First, vehicle manufacturers who already have an assembly presence are being encouraged to increase local content. And second, those who hope to participate in the next phase of motor industry development are required to show their commitment by setting up component manufacturing operations as a first step.

Citroën's newly established venture to produce a version of its ZX model – at an annual rate of 35,000 within two years, and with an eventual target of 150,000 – will feature an increasing proportion of Chinese-built parts. The aim is to reach a local content of 90 per cent as quickly as possible, which has led the company to encourage some of its European suppliers to the Spanish-built ZX to set up in China. Tudor, the Spanish battery manufacturer, has already declared its intention to establish a Chinese plant.

There are signs that Toyota is preparing for a bigger role. So far the Japanese company's main involvement has been providing technical help together with a licence to a local producer for the manufacture of light commercial vehicles. The majority of components are imported from Japan, but the strength of the yen has added to the urgency of building up local content which stands at around 20 per cent. Now Toyota is assisting in the establishment of facilities to produce steering and transmission components, with the aim of boosting the figure to 40 per cent in 1994 and to 70 per cent during the second half of the 1990s.

In June, Ford announced plans to invest $50m in setting up its first Chinese manufacturing facilities. These are to be in the components sector and involve joint ventures with two local suppliers – Shanghai Automotive Industry Corporation and Shanghai Yao Hua Glass Works. Ford is to hold a 51 per cent stake in the ventures, both of which are conditional on receiving official approval.

The joint venture with Yan Feng – China's largest supplier of automotive trim components – will produce plastic components such as instrument panels, interior trim and seats. Operations will take place at one of the Chinese partner's existing facilities and at a new factory which is due to start output in autumn 1994. The joint venture with Yao Hua will be named Shanghai Fu Hua Glass Company, and will produce automotive safety glass and architectural glass.

A wide range of European groups are establishing component manufacturing facilities in China. SKF is setting up an operation to manufacture ball bearings, while Valeo has established a joint venture with local partners for the manufacture of windscreen wiper equipment.

UK component suppliers have not played a particularly prominent role in China's components sector. Part of the reason probably stems from the absence of a British-based vehicle manufacturer in the country. But some component groups have established a presence and there is the likelihood of more to come as others examine opportunities.

Lucas is actively pursuing opportunities in China and already has a licensing arrangement for brake actuation equipment. The company recently concluded a joint venture agreement with Mando (of Korea) to supply brake calipers, in which Lucas will have a 20 per cent holding.

Automotive Products (AP), a subsidiary of BBA, has agreements with local interests with the result that all modern generation Chinese trucks are equipped with clutches produced under licence from AP.

John Griffiths assesses the proliferation of airbags and air-conditioning

Inflated ideas on safety

Cars are becoming ever more complex and sophisticated as a result of stricter safety and environmental laws and consumers becoming more demanding.

The trend is summed up in the motor industry buzz phrase "more car per car". As more high-tech component systems are added, so their suppliers can earn significantly more per vehicle produced.

It is not often that two high-value components systems emerge together to provide suppliers with the potential for a leap in earnings. But such is the case with airbags – being adopted at a rate much faster than expected two years ago – and with air-conditioning.

Airbags, which inflate by explosive charge from the dashboard to prevent injury in a frontal collision, are a relatively new technology. Air-conditioning is far older but traditionally has been very expensive in Europe – typically at least £1,000 per car as an option. However, new capacity to produce air-conditioning is coming on stream in several European centres. Air-conditioning now appears poised to spread through a far larger section of the European car market as manufacturers perceive that it could prove a valuable volume car market sales tool. Peugeot, for example, has disconcerted fleet market rivals in the UK by deciding to fit "a/c" as standard in all 405s sold in in the UK.

Its potential growth in Europe was underlined last month when Australia's Air International Group and the UK's Unipart components group launched a new 50-50 joint venture, Automotive Climate Systems, to design, develop and manufacture air-conditioning, heating and ventilation systems for the European vehicle industry.

The venture is being set up on the basis of forecasts that European demand for a/c systems will triple to 6m units a year by 2000 – business worth about £5bn annually.

In 1990, European sales of a/c systems totalled 940,000 units, although production was higher at 1.6m because of the high level of exports by European car makers to countries such as the US, where air-conditioning is virtually standard.

The largest new venture into a/c, however, has been made by Nippondenso, Japan's largest vehicle components maker, which has invested £65m with Fiat components subsidiary Magneti Marelli in a plant at Telford in the UK with a capacity of 500,000 units a year.

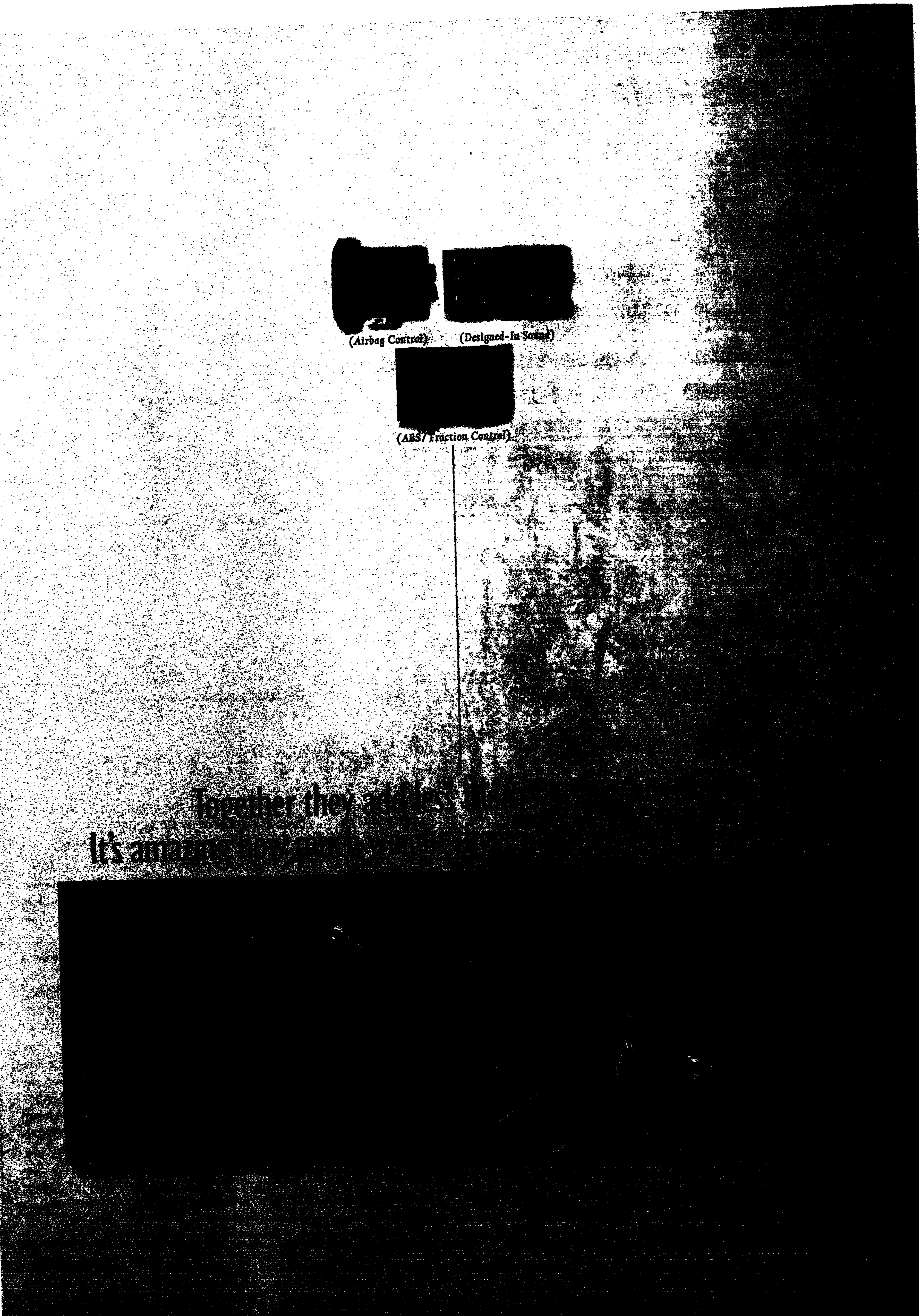
TRW, the US components multinational which, like rival AlliedSignal, is establishing airbag production capacity in Europe, forecasts that the world demand for airbags will grow from about 17m this year to some 60m in 1998.

TRW is investing £8m in a facility at Houghton-le-Spring, Wearside, to produce electronic trigger mechanisms for the bags. AlliedSignal has signed a three-way venture with two Italian groups, Gilardini and Sequa, to supply advanced airbag inflators to European manufacturers. The venture will be based in Colleferro, Italy.

One of the most intractable car safety problems arises from side collisions, where only the thickness of the car door protects against injury.

With question marks increasingly being raised over the efficacy of anti-intrusion bars within the doors an increasing amount of research is going on into side airbags.

Mercedes-Benz, which invented the original steering wheel airbag and is now developing side airbags, stresses the technological difficulties involved. At 30mph, say its engineers, it can take just 15 milliseconds for an occupant to come into contact with the inside of the door. So, to offer maximum protection the airbag may have to inflate even before impact – thus requiring proximity sensors. Quite how they are to differentiate between a harmlessly passing bicycle and a potential car-to-car impact has yet to be fully worked out.


(Airbag Control)
(Designed-In Sound)
(ABS/Traction Control)
Together they add
It's amazing how